AVANGARD BANK

JOINT-STOCK COMPANY «BANK AVANGARD»

JSC "BANK AVANGARD"

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2019

with Independent Auditor's Report

TRANSLATED FROM UKRAINIAN ORIGINAL

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CONTENTS

	Page
Report of Management Bodies "Management Report", which includes Corporate Management Report of JSC "BANK AVANGARD"	3
Independent Auditor's Report	36
Statement of Financial Position as at 31 December 2019	46
Statement of Comprehensive Income for 2019	47
Statement of Cash Flows for 2019 (direct approach)	48
Statement of Changes in Equity for 2019	49
Notes to Annual Financial Statements for 2019	50

AVANGARD BANK

JOINT-STOCK COMPANY «BANK AVANGARD»

REPORT OF MANAGEMENT BODIES "MANAGEMENT REPORT", which includes CORPORATE MANAGEMENT REPORT OF JSC "BANK AVANGARD"

for 2019

1. INTRODUCTION.

This report is drawn up according to the requirements of the current legislation of Ukraine, namely: requirements of the National Bank of Ukraine regarding the procedure for preparing and publishing the financial statements of the banks of Ukraine, the Laws of Ukraine "On Securities and Stock Market" and "On Financial Services and State Regulation of Financial Services Markets" following the results of the activities of the JOINT-STOCK COMPANY "BANK AVANGARD" (hereinafter referred to as the "Bank"). The reporting year is 2019.

2. NATURE OF BUSINESS.

The National Bank of Ukraine registered the Bank on July 5, 2013. The Bank conducts banking operations in the money and foreign exchange markets in accordance with the banking license No. 269 dated July 5, 2013. The Bank offers its customers a wide range of banking services and products, but focuses its main activities on the currency, money and securities markets, conducting transactions both using its own funds and the funds of the customers.

2.1 The external environment, where the bank operates.

The banking sector remains in good financial condition. Banks are highly profitable, the return on equity is at a record high. This year impairment provision expenses expected to be the lowest in more than a decade. The low cost of credit risk will persist in the coming years, as macroeconomic conditions are favorable, real sector debt load is acceptable and household income is rising rapidly.

A stress test conducted in 2019 showed that several banks, including two state-owned banks, still have significant issues. They may require significant amounts of capital under the unfavorable macroeconomic scenario. Their financial sustainability is low and they are vulnerable to possible crises. State-owned banks remain in the focus of NBU's attention, as they are important for the banking system. The NBU expects rapid decisions of independent supervisory boards aimed at clearing balances from non-performing loans, changing business models, optimizing operating expenses.

The key medium-term challenge for the banking sector will be the expected decline in profitability. Banks' operating income growth is slowing after an extremely high growth in 2018. The NBU expects further decrease in interest margin and spread and decrease in the growth of commission income. Therefore, optimization and control of transaction costs will become key for Ukrainian banks.

In December, the NBU continued to soften its monetary policy, accelerating the reduction of the discount rate (by 200 bp - to 13.5%). Accordingly, the cost of the hryvnia resources continued to decline. So, the UIIR was declining as well, and during the year it was near the lower limit in the NBU permanent access instruments rate corridor. At the same time, the yield of hryvnia government bonds continued to decline for all terms of placement due to the considerable demand for them and limited supply.

The interest of non-residents to hryvnia government bonds is explained by the preservation of macro-financial stability and expectations of a decrease in the interest rate in the future. In November, hryvnia interest rates for bank customers continued to decline, responding to a general trend towards a decrease in the cost of resources on the market. However, household interest rates continued to show weaker correlation to other market rates. In December, the foreign exchange market maintained the current year's tendency to strengthen the hryvnia due to the excess supply of foreign currency over a long period.

The main sources of foreign currency in December were traditional export-oriented industries (including agro-industrial complex, metallurgy and mining), portfolio investment and a significant supply of cash. Considering the significant excess of the supply of currency over the demand and the fact that the strengthening of the hryvnia is fundamental and not situational, the NBU decided to increase in December the daily planned volume of foreign currency purchases to replenish international reserves (from $ 30 million to $ 50 million).

In December, the NBU's surplus in the foreign exchange market amounted to $ 2.9 billion ($ 7.9 billion since the beginning of the year). In addition, in view of the constant favorable situation on the foreign exchange market, the NBU increased in December the e-limits for some funds transfer operations.

The macroeconomic situation contributes to the stability of the financial system. A key achievement of 2019 is that the inflation rate entered into the NBU target range. The NBU's policy in the future will be aimed at keeping the consumer price growth rate at the target level. This will allow banks to price their liabilities and assets more efficiently, and thus generally help to restore long-term lending to businesses and individuals.

The profitability of the real sector has stabilized and the debt load as a whole is at an acceptable level. The number of companies planning to attract bank financing is increasing. Lowering interest rates will stimulate to restore lending. There are two key risks that could impair the solvency of the sector in the medium term. The first is the increase in labor costs, which are growing faster than the incomes of enterprises. The second is the fall in prices for individual export of goods. The worst situation is for metallurgical enterprises: the industry is operating at loss in the first half of the year.

To recover mortgage lending, there is a need to address some of the fundamental problems of the primary real estate market. It is highly opaque and investor households lack effective mechanisms to protect their rights. As this market is socially important, its regulation should be as rigid as that of the banking sector. Full transparency of the ownership structures of developers should be ensured and they should be responsible for the delayed completion of construction work. Without streamlining the primary residential real estate market, mortgage recovery will be extremely slow, despite the expected reduction in interest rates.

Consumer lending is growing rapidly. Banks are reducing credit application approval standards. Some financial institutions are very actively expanding their presence in this segment and are trying to aggressively increase their market share. According to the NBU, banks do not conservatively assess the risks of unsecured consumer loans. The estimated default probabilities and losses in the event of default environment are low even in the current macroeconomic situation.

Although the penetration rate of such loans is currently less than 5% of GDP, their growth rates are extremely high. In the first nine months of 2019, the ratio of new consumer loans to private consumption reached almost 9%. Lending becomes a significant factor in domestic consumption. To prevent accumulation of systemic risks, the NBU plans to introduce increased risk weights for such loans from the beginning of 2021. The numerical values of the risk weights will be reported shortly.

From the beginning of 2020, banks should form the first part of the capital conservation buffer at 0.625% and bring this figure to 2.5% within the next three years. Systemically important banks should form a systemic buffer by the end of next year. In part, this will alleviate the NBU's concern about the financial soundness of state-owned banks and reduce capital risks for the sector as a whole.

The dollarization of the financial system remains high. In the macroprudential policy strategy, the NBU acknowledged that this was one of the systemic risks of the Ukrainian economy. In December, two important decisions were made to de-dollarize bank balances. The reserve requirement ratio for foreign currency accounts will be increased to 10% and for UAH deposits balances will be reduced to zero. The approaches to credit risk assessment of the government bonds were also changed. They will no longer be considered risk-free and will be assessed under the general rules. In fact, banks will have to hold capital for such investments.

The NBU continues to update its approaches to banking regulation to strengthen the financial sustainability of the sector. Rules for the calculation of the new NSFR long-term liquidity ratio and minimum capital requirements to cover operating risks will be approved shortly. The plans for 2020 are to harmonize the regulatory capital structure with the Eurodirectives and to develop a regulation for capital requirements to cover market risks. The implementation of all the new rules will not be quick, but will require a long transition period of several years. This will allow banks to plan their capital requirements and adjust their dividend policy accordingly.

The impact from previous discounts and the dynamics of the interest rates have also been driven by environmental factors. These include banks competition for customers and further growth in household demand for loans.

Taking into account the above, the Bank's management concludes that there is an increase in uncertainty of the economic environment, where the Bank operates, which leads to a reduction in the period for planning and forecasting the key performance indicators. The Bank does not see grounds for significant changes in the main factors of its activities during the next 3 months.

2.2. Business model, management objectives and strategies for achieving these objectives.

The Bank operates as a universal bank which activities are aimed at providing the customers with all-inclusive servicing and high-quality services by offering a wide range of banking services and products, focusing its main activities on the currency, money and securities markets, conducting transactions both using its own funds and funds of the customers.

The Bank has no branches and economically autonomous structural subdivisions. The customers are serviced at the Head Office at 3 Sholudenka Street in Kyiv.

As of the end of 2019, the Bank's customer base is formed by business entities (157 customers), non-bank financial institutions (28 customers), individual customers (89 customers) and individual entrepreneurs (6 customers). The Bank serves 280 customers and 704 accounts in total.

The main aspects of the Bank's activities:

- Trade in securities (mainly in the domestic government loan bonds and corporate bonds of blue chips)
- REPO (repurchase agreement) transactions with the domestic government loan bonds
- Active participation in the interbank credit market
- Forex transactions (including currency forwards)

The Bank's activities are based on the principles of reliability, transparency, balance of financial indicators, observance of regulations and best practices of banking activities in the following areas:

Treasury transactions: money market transactions, foreign exchange market transactions, securities transactions, relationships with professional financial market participants – banks, insurance companies, financial intermediaries of the capital markets. Transactions on attracting deposits from the Bank's customers are deemed to be the money market transactions, since they are the source of financing of the Bank's main activities. To ensure such financing, the Bank organized the customer service, document flow associated with all types of transactions and operations, processing of payment orders and notifications in the Customer–Bank System, opening and maintenance of current accounts of the customers and correspondent banks, including transfer of money funds by means of payment instruments and credit of funds to accounts; maintenance of accounts of customers (residents and non-residents) in foreign currency and non-resident customers in the currency of Ukraine; maintenance of correspondent accounts of the banks (residents) in foreign currency; opening of correspondent accounts with authorized banks of Ukraine in foreign currency and carrying out transactions thereon.

The Bank is aimed at meeting the requirements of the Ministry of Finance of Ukraine for obtaining the status of a primary dealer for the domestic government loan bonds. Following the results of trading in the domestic government loan bonds, the Bank holds positions among the TOP-5 largest market operators.

The Bank was created according to the special concept of the treasury bank, focused on the use of significant experience in its activities with maximum operational efficiency due to the price competition and high technologies.

The Bank's objective is to become an impeccable settlement mechanism with high speed of transactions. As a treasury bank with low administrative costs, the Bank can offer its customers attractive prices for its services. Minimizing the operating cycle time, the Bank maximizes the number of transactions per day and turnover of funds. Thus, the Bank can offer low tariffs, the best one on the foreign exchange quotation market, which, in turn, contributes to better indicators of capital and asset returns than the average market ones.

The authorized capital of the Bank made UAH 300.120 million at the date of this Business Plan, which corresponds to the regulatory requirements. According to the results of the stability assessment of JSC "BANK AVANGARD" in 2019, the National Bank of Ukraine decided on the lack of need for bank capitalization. In future, the Bank plans to adhere to the requirements of the National Bank of Ukraine regarding the size of the authorized and regulatory capital, increasing it by capitalizing profits, and, if necessary, by additional contributions of the shareholders.

The Bank's strategy has not changed significantly since the beginning of its activities in 2013 and till now. Business plans and budgets are subject to review at least once a year in order to confirm the main indicators of the financial market, which are a prerequisite for their drawing up, making appropriate changes, subject to introduction of new products.
During 2019, the National Bank of Ukraine applied no restrictions to the Bank on limiting the types of activities that the Bank might execute according to the permits and licenses granted, and there were no restrictions on the ownership of the assets.

In the reporting year, the Bank's management took no decisions on merger, acquisition, division, allocation or reorganization of the Bank or termination of certain activities of the Bank.

During the reporting year:

- there was no initiation of bankruptcy proceedings or a decision to reorganize the Bank, the Bank's supreme management body or the court did not take a decision to terminate or bankrupt the Bank;
- a loan or a credit exceeding 25 % of the Bank's assets was not received or granted.

3. INDICATORS OF THE BANK DEVELOPMENT IN 2019.

As at 31 December 2019, the Bank's assets amounted to UAH 1 024 532 (as at 31 December 2018 – UAH 934 037 thousand).

The Bank assets quality is good. The Bank's assets consist mostly of highly liquid assets, that represented by government bonds and NBU deposit certificates. Funds on correspondent accounts are located in resident banks.

As at 31 December 2019, the Bank's liabilities amounted to UAH 691 368 thousand (2018: UAH 611 824 thousand). The resource base is formed by customer assets, including short-term funds of legal entities and individuals. As at 31 December 2019, the portfolio of customer deposits amounted to UAH 394 670 thousand (2018: UAH 586 826 thousand).

As at 31 December 2019, the Bank's equity amounted to UAH 333 164 thousand (2018: UAH 322 213 thousand). The main component of equity is the Bank's share capital.

As at 31 December 2019, the Bank's regulatory capital amounted to UAH 326 897 thousand, including tier I capital in the amount of UAH 309 073 thousands and tier II capital in the amount of UAH 17 824 thousand.

During 2019, the Bank adhered to the economic standards of the National Bank of Ukraine, which as at 31 December 2019 had the following indicators:

	Characteristic value	**As at 31 December 2019**	**As at 31 December 2018**
regulatory capital ratio (N1)	UAH 200 000 ths.	UAH 326 897 ths.	UAH 322 467 ths.
regulatory capital adequacy ratio (N2)	Not less than 10%	237,28%	60,38%
short-term liquidity ratio (N6)	Not less than 60%	97,53%	115,65%

In order to monitor banks' liquidity, the National Bank has introduced the following liquidity ratios: short-term liquidity (H6) and liquidity coverage ratio (LCR), for all currencies (LCRBB) and for foreign currency (LCRIB).

Liquidity Coverage Ratio (LCR) is a liquidity ratio that sets the minimum level of liquidity required to cover a net expected cash outflow for 30 calendar days, taking into account the stress scenario (hereinafter referred to as net expected cash outflow).

The Bank calculates its Liquidity Coverage Ratio (LCR) daily as the ratio of high quality liquid assets to the expected net cash outflow.

As of 01/01/2020, Bank's LCR is compliant with a statutory value of 100%:

- for all currencies (LCRBB) - 353.4075%

- for foreign currency (LCRIB) - 189,1902%

Following the results of 2019, the Bank's activities are income-generating, the Bank received net profit amounting to UAH 10 225 thousand.

More information is provided in the Annual Financial Report of the Bank for 2019.

Credit–Rating Independent Credit Rating Agency confirmed the Bank's credit rating at uaAAA level on February 21, 2020, the forecast is "stable".
The credit rating report is available at
https://avgd.ua/wp-content/uploads/CR_Avangard_ua_210220.pdf

4. PLANS OF THE BANK FOR 2019 AND FOR LONG-TERM PROSPECTS.

In 2020, taking into account changes in the market conditions, the Bank is going to hold a short-term portfolio of the domestic government loan bonds in the amount of UAH 500 mln. Other assets will consist of funds from other banks and short-term loans to reliable borrowers. At the same time, 85% of the Bank's assets will be placed for a period of up to 30 days, and at least 85 % of assets will be highly liquid, since they will consist of interbank credit transactions, a portfolio of the domestic government loan bonds and balances on correspondent accounts with the most reliable Ukrainian and foreign banks. At least 90 % of the funds attracted will be the funds from legal entities. Such asset profile will be retained until the adoption of individual decisions on introduction of new products within the next years.

At the same time, the Bank does not conduct and does not plan to conduct cash transactions, as well as do the retail business.

High profitability performance profile (RoA, RoE) and a rather low indicator of operational efficiency (Cost-to-Income Ratio), compared with the industry averages, confirm the economic feasibility of the concept of the bank establishment and its high technological effectiveness.

At the same time, the Bank depends on the interest rates and changes in the exchange rates. Therefore, the promising area of work is the introduction of new products with the focus on growth of a share of fee income in the structure of the Bank's revenues, guarantees granted, short-term overdrafts, currency forwards, NDFs, FX SWAP transactions with customers, attraction for the Bank's servicing of the large companies interested in the Bank's services, development of transactional business.

In order to attract customers and promote the Bank's services, it is planned to improve all sales channels, including improvement of the Bank's web page, informational work (analytical reports, reviews, legal opinions and recommendations for customers, etc.), mechanisms for attracting new customers for the Bank's servicing and optimization of operational procedures, which should meet the requirements of time regarding the speed and simplicity of transactions and reliability of payments.

During the next years, the Bank is going to increase cooperation with counterparties in Ukraine in order to establish settlement and unsecured limits for the Bank in terms of expanding the range of customers interested in the services of the treasury bank.

Opening of direct correspondent accounts with the leading international banks is also a significant focus area.

In 2019, the Bank confirmed the compliance of its procedures with the requirements of international standards regarding the quality management system ISO 9001 and the information security management system ISO 27001. During the next years, the Bank plans to comply with the requirements of these international standards. The Bank is going to build a system for managing the continuity of business under the international standard ISO 22301 by the end of 2021. In 2020-2021, the Bank will implement anti-corruption procedures in accordance with the international standard ISO 37001.

The high reliability of the Bank's IT services, located in De Novo cloud environment and equipped with high-speed aggregated communication channels, provides the Bank's customers with a seamless secured access to the remote service system and allows making quick payments. The Bank is up to continue to improve the information security and continuity of services, to maintain the compliance of banking settlement technologies with the best practice standards.

The Bank implemented IBAN for internal and external settlements, enhance the cryptosecurity of its settlement mechanisms and systems, as well as will work on creation of

an innovative platform for the development of new products and services. This will be facilitated, without limitation, by introduction of new products of information security provision, monitoring and audit, the continued implementation of the electronic digital signature in the Bank's activities, as well as expansion of the field of electronic document flow application.

The Bank's objective is to become the absolute Digital Bank by the end of 2022, to the extent permitted by the current legislation at that time, while retaining its own business model. For this, it will optimize all operational procedures, introduce new software products that will automate all routine procedures, maximally accelerate the execution of all required database checks, and perform the settlement transactions as efficiently as possible in order to maintain high reliability and sufficiently high profitability of the Bank.

The key performance indicators of the Bank's activities are profit, return on assets and capital, capital adequacy, net interest margin and Cost-to-Income Ratio, compliance with mandatory economic standards established by the National Bank of Ukraine.

The Bank is not going to make significant changes to its strategy over the long term.

5. THE BANK'S NEED FOR FINANCING.

In view of the special concept and business model of the Bank as a treasury bank, we believe that the Bank does not require additional financing for its activities; its authorized capital is sufficient to meet regulatory requirements for the period of up to 2022. The authorized capital of the Bank will be increased to the amount required within the period, established by the law, to comply with the regulatory requirements regarding the size of authorized and regulatory capital of the Bank.

6. RESOURCES OF THE BANK.

The key financial resources of the Bank are capital and attracted funds from other banks and customers of the Bank. The authorized capital makes over 90 % of the Bank's equity. The high level of capitalization mitigates the Bank's sensitivity to risks and ensures the further development.

During the period analyzed, funds from other banks were attracted under the overnight conditions and REPO transactions. The Bank did not have interbank borrowings as the beginning of this year.

The funds of customers make over 95 % of the Bank's liabilities at the end of the reporting period. Despite the prevalence of funds on current customer accounts against the background of concentration of obligations for major creditors, the absence of a regional network, a small number of customers and predictability of their cash flows, as well as a significant amount of highly liquid assets mitigate the Bank's sensitivity to liquidity risk.

The Bank's liabilities, which are mostly formed by the funds of the business entities, the insignificant amount of the credit portfolio and its collateral structure, as well as high level of capitalization and acceptable level of reserve of active banking transactions mitigate the Bank's sensitivity to risks.

The key non-financial resources of the Bank: the intellectual capital of the Bank's staff, technological resources. The Bank is provided with premises, office equipment, banking equipment and special technical means for security system creation. The amount of funds invested by the Bank in the fixed assets is insignificant, the capital security factor made 0.14%.

7. CORPORATE MANAGEMENT REPORT.

7.1. OBJECTIVE OF ACTIVITIES OF THE FINANCIAL INSTITUTION.

According to its Charter, the Bank has the following objectives:

- satisfaction of public needs in banking services;
- attraction, accumulation, provision of movement and redistribution of money supply;
- as well as gaining of profit based on the results of its activities.

7.2. THE CORPORATE GOVERNANCE CODE THE BANK IS GUIDED BY.

The corporate governance in the Bank is carried out according to the requirements of the current legislation of Ukraine, including the Law of Ukraine "On Banks and Banking", the Law of Ukraine "On Joint Stock Companies", laws and regulations of the National Bank of Ukraine and the National Commission on Securities and Stock Market, as well as according to the Charter of the Bank and the Corporate Governance Code of the Bank, which are available on the Bank's website (https://avgd.ua/about/dokumenty-banku/)

The Corporate Governance Code of the Bank defines the principles of corporate governance in the Bank, the principles of protecting the interests of shareholders, depositors and other stakeholders, the principles of transparency of decision-making, the responsibility of the Bank's managers and information openness.

The Bank has been complied with the Corporate Governance Code of the Bank and the principles specified therein during 2019, there were no deviations.

The Bank did not take decisions on the non-application of some provisions of the Corporate Governance Code of the Bank and/or the application of the corporate governance codes of stock exchanges, legal entity associations or other corporate governance code.

The Bank does not have any other corporate governance practices that apply beyond the legal requirements.

7.3. HOLDERS OF THE SUBSTANTIAL SHAREHOLDING IN THE BANK.

WESTAL HOLDINGS LTD (Limassol, the Republic of Cyprus) is the shareholder of the Bank, which is a holder of substantial shareholding in the Bank and holds directly 100.00 % of the authorized capital of the Bank as of January 1, 2020.

As of January 1, 2020, the holders of the substantial shareholding in the Bank indirectly are:

- Legal entity ICU Holdings Limited (Tortola, British Virgin Islands), which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD;
- Legal entity NAREMIUS HOLDINGS LTD (Tortola, British Virgin Islands), which indirectly holds: 44.993 % of share in the Bank through the legal entity ICU Holdings Limited, which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD;
- Legal entity FILTESA HOLDINGS LTD (Tortola, British Virgin Islands), which indirectly holds: 45.011 % of share in the Bank through the legal entity ICU Holdings Limited, which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD;
- A group of persons bound by common economic interests, namely:

- Individual Kostiantyn Viktorovych Stetsenko (place of residence: Kyiv, Ukraine), who indirectly holds 44.993 % of share in the Bank through 100.00 % of share in the legal entity NAREMIUS HOLDINGS LTD, through the legal entity of ICU Holdings Limited, which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD;
- Individual Makar Yuriiovych Paseniuk (place of residence: Vyshhorod, Kyiv region, Ukraine), who indirectly holds 45.011 % of share in the Bank through 100.00 % of share in the legal entity FILTESA HOLDINGS LTD, through the legal entity of ICU Holdings Limited, which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD.

Holders of the substantial shareholding meet the requirements established by the current legislation of Ukraine.

The Bank's management does not hold the Bank's shares.

7.4. THE BANK'S MANAGEMENT SYSTEM.

The supreme management body of the Bank is the General Meeting of Shareholders. During the period between the General Meeting of Shareholders, the Supervisory Board of the Bank exercises the protection of shareholders' rights, as well as control and regulation of the Management Board's activities within its competence.

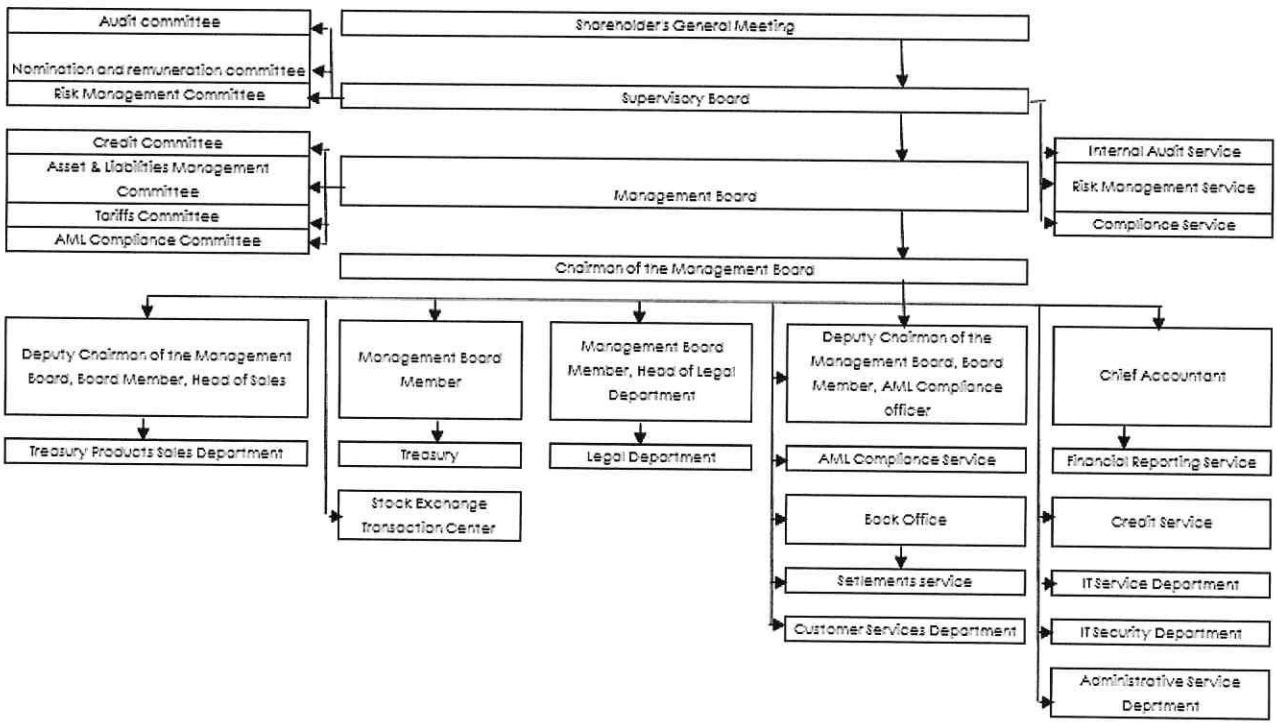
The exclusive competence of the Supervisory Board includes the issues of approval of the Bank's Regulations and other internal documents regulating issues related to the Bank's activities, approval of which is within the competence of the Supervisory Board; making a decision on holding the General Meeting of Shareholders, approval of the agenda of the meeting and inclusion of proposals in the agenda of the meeting, election of the registration commission, making decision on the date of its holding; making a decision on repurchase and placement of securities other than shares by the Bank; approval of the market value of property in cases stipulated by the legislation; election and termination of powers of the Chairman and members of the Management Board of the Bank, control over the activities of the Management Board; making a decision on suspension of the Chairman of the Management Board of the Bank from his powers and election of a person who will temporarily exercise the powers of the Chairman of the Management Board of the Bank; election of an auditor of the Bank; creation of an internal audit service of the Bank and approval of regulations on it, decision on appointment and dismissal of the head of the internal audit service; determination of the external auditor and terms and conditions of agreement with him; establishment of the procedure for conducting audits and control over the financial and economic activities of the Bank; making a decision on cover of losses; settlement of issues concerning the Bank's involvement in associations, on establishment, reorganization and liquidation of other legal entities, branches and representative offices of the Bank, approval of their charters and regulations; determination of the possibility of recognizing the Bank as insolvent due to acceptance of obligations or their fulfillment by the Bank, including as a result of payment of dividends or reacquisition of shares; making a decision on election of an appraiser of the Bank's property; making a decision on election (replacement) of the registrar of registered securities holders of the Bank or securities depositary and approval of the terms and conditions of agreement that will be concluded with him, establishing the amount of payment for its services; as well as other issues determined by the current legislation or delegated to the Supervisory Board by the General Meeting of Shareholders.

The executive body of the Bank is the Management Board, which manages the Bank's current activities, forms the funds necessary for the statutory activities of the Bank, and is responsible for its overall performance according to the principles and procedure

established by the Bank's Charter, decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank. The Management Board of the Bank reports to the General Meeting of Shareholders and the Supervisory Board of the Bank, as well as arranges compliance with their decisions. The Management Board of the Bank resolves issues of management of activities of economically autonomous structural subdivisions of the Bank, controls compliance with the requirements of the current legislation of Ukraine by the Bank; organizes operations for the storage of money resources and valuables of the Bank, accounting and reporting, internal control and other issues of the Bank's activities; reviews and approves the internal documents of the Bank within its competence, decides on the creation, management and liquidation of structural units of the Bank, except for those, decisions on which belong to the exclusive competence of the Supervisory Board of the Bank, as well as performs other powers provided for by the current legislation of Ukraine.

The organizational structure of the Bank is based on the main lines, each of which is subordinate to one member of the Management Board of the Bank.

Organizational structure of the Bank



The number of staff employees makes 23 persons at the end of 2019. The Bank does not plan to increase or change significantly its personnel. The Bank has no economically autonomous structural subdivisions.

The managers and officials of the Bank have sufficient experience in their scope of activities, appropriate education and confirmed impeccable business reputation.

7.5. INFORMATION ON THE GENERAL MEETING OF SHAREHOLDERS (MEMBERS) AND GENERAL DESCRIPTION OF THE DECISIONS MADE AT THE MEETINGS.

The Bank's sole shareholder, the owner of 122,000 of the Bank's ordinary registered shares representing 100% of the Bank's authorized capital are: "WESTAL HOLDINGS LTD", a company established and operating under the laws of Cyprus, with registration number HE244019 (hereinafter referred to as "Shareholder").

Pursuant to Article 49 of the Law of Ukraine "On Joint Stock Companies" (hereinafter - the Law), provisions of Articles 33 - 48 of the Law on the Procedure for Convening and Holding General Meetings of Shareholders shall not apply to a single-shareholder company.

The Shareholder's decision has the status of minutes of the General Meeting of Shareholders of the Bank.

The following meetings were held in 2019.

Date	Agenda	Decisions taken
03.01.2019	1. About the Bank's significant transactions	To authorize the Bank to perform from 01/01/2019 to 31/12/2019 significant transactions, each for up to UAH 350.00 million, in respect of: the purchase and sale operations and repo of Ukraine's domestic government bonds and/or deposit certificates of the National Bank of Ukraine; purchase and sale of foreign currency; attracting funds on the interbank market; attracting funds from clients, as well as performing credit operations, fully secured with monetary coverage and/or pledge of property rights on deposit with the Bank. When carrying out active transactions, the Bank has to comply with the counterparty debt limit (mandatory economic standard N7 established by the National Bank of Ukraine) both during the external payments and during the term of this transaction, except for transactions under agreements that involve advance payments in favor of the Bank. These restrictions do not apply to the transfer of funds between the Bank's own correspondent accounts (NOSTRO accounts) in correspondent banks, the amount (limits) of balances determined by a separate decision on determining the limit on the balance in the correspondent account.

15.02.2019	1. About the Bank's significant transactions	1. To authorize the Chairman of the Board S. Korchinska (or in her absence - the Acting Chairman of the Board) to conclude an agreement to amend the General Credit Agreement with the National Bank of Ukraine. 2. Establish the maximum amount of obligations under the General Credit Agreement, taking into account the value of the pool of pledged assets for a total amount of 1,200,000,000.00 (one billion two hundred million) UAH. This decision applies to both the amount of the individual application and the total amount of transactions that may be concluded with the National Bank of Ukraine for refinancing operations under the relevant General Credit Agreement and not repaid by the Bank. 3. To authorize the Chairman of the Board of the Bank Korchynska S. (or in her absence - the Acting Chairman of the Board) to delegate the powers specified in this Minutes to enter into transactions with the National Bank of Ukraine, for which it should authorize the issuance of power of attorney to employees of the Bank to enter into transactions related to obtaining refinancing credits from the National Bank Ukraine (including overnight), with the right to provide the assets (property) of the Bank in securing the fulfillment of obligations under the respective refinancing loans for the total amount of 1 200 000 000,00 (one billion two hundred million).
21.03.2019	1. About the Bank's significant transactions	1. To authorize the Chairman of the Board S. Korchynska (or in her absence - the Acting Chairman of the Board) to conclude a general agreement on the sale and purchase of foreign currency on the terms of "swap" with the National Bank of Ukraine and additional agreements thereto. 2. To set the maximum amount of the agreement within the framework of the General Agreement on the Procedure of Buying and Selling Foreign Currency and Swap Terms and Conditions with the National Bank of Ukraine in the amount of UAH 1,200,000,000.00 (one billion two hundred million) UAH. This decision applies to both the amount of a separate sale and purchase transaction, the exchange of foreign currency under swap conditions, and the total amount of transactions that may be conducted with the National Bank of Ukraine within the framework of the relevant General Agreement on the Procedure for Buying and Selling Transactions, exchange of foreign currency under swap conditions with the National Bank of Ukraine.

		3. To authorize the Chairman of the Board of the Bank Korchinska S. (or in the absence of the Acting Chairman of the Board) to delegate the powers specified in this Minutes to enter into transactions with the National Bank of Ukraine, whereby to authorize the issuance of power of attorney to employees of the Bank to enter into transactions related to conducting sales and purchase transactions, exchange of foreign currency on the terms of "swap" with the National Bank of Ukraine.
23.04.2019	1. On reviewing the report of the Management Board of the Bank on the results of financial and economic activities of the Bank for 2018 and making a decision based on the results of its consideration. 2. On reviewing the report of the Supervisory Board of the Bank for 2018 and making a decision based on the results of its consideration. 3. On approval of the changes to the terms of agreements with the members of the Supervisory Board, determination of the size of their remuneration, election of the person authorized to sign them. 4. On reviewing the conclusions of the Bank's external audit for 2018 and approving measures based on the results of their consideration. 5. On approval of the performance results and the annual report of the Bank for 2018. 6. On distribution of profits for 2018.	1. To approve the report of the Management Board of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" on the results of financial and economic activities of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" for 2018. 2. To approve the report of the Supervisory Board of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" for 2018. 3. To approve changes to the terms of agreements concluded with the Chairman and members of the Supervisory Board of the Bank, as well as the size of their remuneration. To elect the Chairman of the Management Board of the Bank S. A. Korchynska as a person authorized to sign agreements with the Chairman and members of the Supervisory Board of the Bank. 4. To approve the report and conclusion of the external auditor BAKER TILLY UKRAINE LLC, based on the results of the annual financial statements of JOINT-STOCK COMPANY "BANK AVANGARD" for 2017, without comments and additional measures. 5. To approve the annual report (annual financial statements) of JOINT-STOCK COMPANY "BANK AVANGARD" for 2018. To approve the performance results of JOINT-STOCK COMPANY "BANK AVANGARD" for 2018, namely profit in the amount of UAH 10,465,268.66. 6. To distribute the profit of JOINT-STOCK COMPANY "BANK AVANGARD" according to performance results in 2018 in the amount of UAH 10,465,268.66 as follows: - a share of profits in the amount of UAH 523,263.43 to be sent to the reserve fund of JOINT-STOCK COMPANY "BANK AVANGARD"; - a share of profits in the amount of UAH 9,942,005.23 to be undistributed. 7. To amend the Regulations on the Supervisory Board of JOINT-STOCK COMPANY "BANK

	7. On amendments to the internal procedures of the Bank.	AVANGARD" and approve the amended Regulation. To amend the Regulations on the Management Board of JOINT-STOCK COMPANY "BANK AVANGARD" and approve the amended Regulation.
24.04.2019	1. About the Bank's significant transactions	1. Allow the Bank to commit from 01.05.2019 to 31.12.2019 significant transactions each up to UAH 1,000.00 million. in respect of: conducting active credit risk related transactions with the National Bank of Ukraine, including, but not exclusively, operations of buying / selling deposit certificates of the National Bank of Ukraine.
30.07.2019	1. Approval of the Bank's Remuneration Policy. 2. Approval of changes to the terms of contracts with members of the Supervisory Board, the amount of their remuneration, election of person authorized to sign them.	1. To approve the Remuneration Policy of BANK AVANGARD JOINT STOCK COMPANY. 2. To approve changes to the terms of the agreements with the Chairman and members of the Supervisory Board of the Bank, and the amount of their remuneration. To elect a person authorized to sign contracts with the Chairman and members of the Bank's Supervisory Board Chairman of the Board of the Bank Korchinskaya SA
23.12.2019	1. On approval of the changes to the terms of agreements with the members of the Supervisory Board, determination of the size of their remuneration, election of the person authorized to sign them.	1. To approve changes to the terms of agreements concluded with the Chairman and members of the Supervisory Board of the Bank, as well as the size of their remuneration. To elect the Chairman of the Management Board of the Bank S. A. Korchynska as a person authorized to sign agreements with the Chairman and members of the Supervisory Board of the Bank.

7.6. SUPERVISORY BOARD OF THE BANK.

The Supervisory Board of the Bank is a collective body that protects the rights of shareholders, as well as controls and regulates the activities of the Management Board within its competence, determined by the legislation, the Bank's Charter and the Regulations on the Supervisory Board of the Bank.

The Supervisory Board makes collectively the decisions within its competence and ensures execution of decisions of the Bank's Supreme Management Body – the General Meeting of Shareholders.

The Supervisory Board reports to the General Meeting of Shareholders on its activities, the general status of the Bank and its actions aimed at achieving the Bank's goals and strategic objectives.

The purpose of the Supervisory Board's activities is to represent interests and protect the rights of Shareholders, ensure the efficiency of their deposits, promote implementation of the tasks of the Bank according to its Charter, develop a strategy aimed at increasing the Bank's profitability and competitiveness, as well as control over the activities of the Bank's Management Board. Independence and respectableness of the Supervisory Board are the prerequisites for fulfilling its role.

As of January 1, 2019, the Supervisory Board of the Bank worked in the following composition:

The Chairman of the Supervisory Board:	K. V. Stetsenko
Members of the Supervisory Board:	M. Y. Paseniuk A. O. Saprykin
Independent Members of the Supervisory Board:	M. V. Stetsenko V. V. Hladun O.M. Kurynnyi

As of October 30, 2019, the term of office of Artem Saprykin, Member of the Supervisory Board, was terminated (notification dated October 15, 2019 based on subparagraph 1) of clause 8.4.2 of the Bank's Charter).

The Chairman and members of the Supervisory Board became acquainted with the contents of the internal documents of the Bank regarding their rights and obligations.

The Chairman and members of the Supervisory Board have an impeccable business reputation, are not members of the Management Board of the Bank and/or members of the management bodies of a legal entity that compete with the Bank's activities. Moreover, when electing the members of the Supervisory Board, the Bank conducts a careful analysis of the candidates for absence of a conflict of interest, as well as other factors that, according to the current legislation of Ukraine, would prevent them from taking positions by them in the Supervisory Board.

In order to ensure the independence of the Supervisory Board, independent members of the Supervisory Board are elected, which is confirmed by the absence of any substantial business, family or other relations with the Bank, members of the Management Board or a principal Shareholder of the Bank, moreover, such independent members are not representatives of the state.

The Chairman and Members of the Supervisory Board have higher education and significant experience in the financial sector, make balanced decisions that show their competence and efficiency, as well as that is confirmed by the results of the Bank's activities during the reporting year.

The organizational form of the Supervisory Board is the meeting, at which the Supervisory Board made decisions in 2019 according to its competence determined by the Bank's Charter and the Regulations on the Supervisory Board.

During 2019, 39 meetings of the Supervisory Board were held, including joint meetings with the Management Board. All meetings of the Supervisory Board held are legitimate.

The Supervisory Board includes the Chairman and other members of the Supervisory Board (hereinafter referred to collectively as the members of the Supervisory Board). The number of members of the Supervisory Board is 6 (six) persons. Members of the Supervisory Board may not be the members of the Management Board of the Bank, as well as hold other positions in the Bank under an employment agreement (contract) or provide services to the Bank according to a civil law contract. The Supervisory Board shall be composed of at least one third of the independent members of the Supervisory Board, which shall consist of at least three persons. An independent member of the Supervisory Board is a member of the Supervisory Board, not affected by the other parties during the decision-making while performing the duties of an independent member of the Supervisory Board. Requirements for persons who cannot be considered as independent members of the Supervisory Board shall be established by the legislation of Ukraine. At least half of the members of the Supervisory Board should have a work experience in the banking and/or financial sector. The members of the Supervisory Board should have higher education, meet the requirements of the current legislation of Ukraine, as well as qualification requirements for the professional aptitude and business reputation. The National Bank of Ukraine determines

compliance with the professional aptitude and business reputation in the manner prescribed by the current legislation of Ukraine. The members of the Supervisory Board should meet qualification requirements during this entire period of their employment, and the independent members of the Supervisory Board should also meet the requirements for their independence.

Members of the Supervisory Board shall be elected and appointed by the General Meeting of Shareholders of the Bank.

Only an individual may be a member of the Supervisory Board. The members of the Supervisory Board may be independent members of the Supervisory Board, shareholders of the Bank and representatives of shareholders of the Bank. An individual who has full civil capacity may be a member of the Supervisory Board. The members of the Supervisory Board shall be elected solely by cumulative voting, according to the procedure established by the current legislation of Ukraine, except for the cases when the shareholder of the Bank is one person. Candidates for the members of the Supervisory Board shall be submitted to the General Meeting of Shareholders of the Bank for consideration. When electing members of the Supervisory Board, in addition to information on each candidate (full name (name) of the shareholder, the size of his shareholding) to the member of the Supervisory Board, the cumulative voting ballot shall specify information whether such candidate is a shareholder, representative of a shareholder or group of shareholders (with information on that shareholder or shareholders) or whether he is an independent member. A member of the Supervisory Board elected as a representative of a shareholder or group of shareholders may be replaced by such shareholder or group of shareholders at any time. The members of the Supervisory Board are elected by shareholders during the General Meeting for a term not exceeding three years.

If the number of members of the Supervisory Board, whose powers are valid, is less than half of its number of members elected by the General Meeting according to the requirements of legislation, the Bank shall, within three months, convene the extraordinary General Meeting to elect the rest of members of the Supervisory Board, and if the members of the Supervisory Board are elected by cumulative voting, to elect the entire membership of the Supervisory Board of the Bank.

Persons, elected as the members of the Supervisory Board, may be re-elected for an unlimited number of times. The powers of a member of the Supervisory Board elected by cumulative voting, upon the decision of the General Meeting, may be early terminated only subject to the simultaneous termination of powers of all members of the Supervisory Board. In such case, the decision on termination of powers of the members of the Supervisory Board shall be made by the General Meeting by a simple majority of votes of the shareholders, registered to participate in the meeting, who are the holders of voting shares on the relevant issue.

The powers of a member of the Supervisory Board are valid from the moment of his/her election by the General Meeting.

A member of the Supervisory Board may not be a member of the Management Board of the Bank, as well as hold other positions in the Bank under the employment agreement. A member of the Supervisory Board should perform his/her duties personally and may not transfer his/her own powers to another person. The members of the Supervisory Board may obtain remuneration for their activities. The procedure for payment of remuneration to members of the Supervisory Board is established according to the legislation of Ukraine.

The Chairman of the Supervisory Board

The Chairman of the Supervisory Board is elected by the members of the Supervisory Board from their number by a simple majority of votes from the members of the Supervisory Board. The Supervisory Board may at any time re-elect the Chairman of the Supervisory Board. A

member of the Supervisory Board, who was the Chairman of the Management Board during the previous year, may not be the Chairman of the Supervisory Board.

The Chairman of the Supervisory Board:

- organizes the work of the Supervisory Board, convenes its meeting and takes chair at it;
- approves the agenda of meetings of the Supervisory Board;
- organizes keeping the minutes of meetings of the Supervisory Board;
- organizes the work on creation of the committees of the Supervisory Board, nomination of members of the Supervisory Board in the composition of these committees, as well as coordinates activities, relations between committees and with other bodies and officials of the Bank;
- prepares a report and reports to the General Meeting on activities of the Supervisory Board, the general status of the Bank and the Supervisory Board's actions aimed at achieving the Bank's goals;
- keeps continual contacts with other bodies and officials of the Bank;
- exercises other powers stipulated by the current legislation and the Charter of the Bank, as well as those necessary for the work of the Supervisory Board; exercises other powers stipulated by the Charter, the Regulations on the Supervisory Board, the current legislation, as well as those necessary for the work of the Supervisory Board.

If the Chairman of the Supervisory Board fails to exercise his/her powers, one of the members of the Supervisory Board exercises his/her powers, by the decision of the Chairman.

The members of the Supervisory Board may:

1) participate in meetings of the Management Board of the Bank;

2) receive complete, accurate and timely information about the Bank necessary to perform their functions;

3) review the Bank's documents, receive copies thereof, as well as copies of documents of the Bank's subsidiaries. The above information and documents are provided to the members of the Supervisory Board within 5 (five) days from the date of receipt by the Bank of the relevant request addressed to the Chairman of the Management Board of the Bank;

4) request, if necessary, convening of extraordinary meetings of the Supervisory Board of the Bank;

5) provide written comments on decisions of the Supervisory Board of the Bank.

Duties of the members of the Supervisory Board:

1) act for the benefit of the Bank in good faith and reasonably, and not exceed their powers; the obligation to act in good faith and reasonably means the need to show diligence, prudence and due caution that a person would have had in such a position under such circumstances.

2) be guided in their activities by the current legislation of Ukraine, the Bank's Charter, this Regulation, other internal documents of the Bank;

3) comply with decisions made by the General Meeting and the Supervisory Board of the Bank;

4) participate personally in meetings of the Supervisory Board and in the work of the committees of the Supervisory Board. Inform in advance of the inability to participate in the meetings of the Supervisory Board, specifying the reasons for their absence;

5) adhere to the rules and procedures established in the Bank for conclusion of transactions, which they are interested in (conflict of interests);

6) adhere to all rules established in the Bank related to the regime of turnover, security and storage of the restricted information. Not disclose confidential and insider information, as well as information, which constitutes a banking secret, that has become known in connection with performance of functions of a member of the Supervisory Board, to persons, who do not have access to such information, as well as use it for their own benefit or for the benefit of third parties;

7) inform the Supervisory Board and the Management Board of the Bank within 3 (three) days about the loss of the Bank's shareholder status;

8) refrain from any actions that may lead to the loss of an independent member of the Supervisory Board of his/her independence. In case of loss of independence, the member of the Supervisory Board shall inform the Supervisory Board and the Management Board of the Bank in writing within 3 (three) days;

9) provide the General Meeting, the Supervisory Board with complete and accurate information on the Bank's activities and financial condition in time.

The following committees of the Supervisory Board operate in the Bank in 2019:

- The Audit Committee consisting of:
    - The Chairman: Mykola Volodymyrovych Stetsenko;
    - Members: Makar Yuriovych Paseniuk, Artem Oleksandrovych Saprykin, Viktor Volodymyrovych Hladun, Oleh Mykhailovych Kurinnyi

Powers of Supervisory Board member Saprykin Artem Alexandrovich were terminated as of 30/10/2019.

- The Committee on Appointments and Rewards:
    - The Chairman: Mykola Volodymyrovych Stetsenko;
    - Members: Kostiantyn Viktorovych Stetsenko, Artem Oleksandrovych Saprykin, Viktor Volodymyrovych Hladun, Oleh Mykhailovych Kurinnyi

Powers of Supervisory Board member Saprykin Artem Alexandrovich were terminated as of 30/10/2019.

- The Risk Management Committee consisting of:
    - The Chairman: Mykola Volodymyrovych Stetsenko;
    - Members: Makar Yuriovych Paseniuk, Artem Oleksandrovych Saprykin, Viktor Volodymyrovych Hladun, Oleh Mykhailovych Kurinnyi

Powers of Supervisory Board member Saprykin Artem Alexandrovich were terminated as of 30/10/2019.

The Audit Committee of the Supervisory Board held 9 meetings during 2019. All meetings of the Audit Committee of the Supervisory Board are legitimate.

The Committee on Appointments and Rewards of the Supervisory Board held 9 meetings during 2019. All meetings of the Committee on Appointments and Rewards of the Supervisory Board were legitimate.

The Risk Management Committee of the Supervisory Board held 16 meetings during 2019. All meetings of the Risk Management Committee of the Supervisory Board are legitimate.

The Chairman and members of the Supervisory Board comply with the requirements of professional aptitude and business reputation established by the Law of Ukraine "On Banks

and Banking", as well as laws and regulations of the National Bank, the Charter and internal documents of the Bank, and independent members of the Supervisory Board also comply with the requirements for independence, established by the Law of Ukraine "On Joint Stock Companies".

The Chairman and members of the Supervisory Board have sufficient knowledge, skills and experience to perform effectively their functions, they have no conflict of interest (including potential) and signs of the lack of impeccable business reputation, as well as sufficient time to perform their functions taking into account duties of each member of the Supervisory Board of the Bank.

The remuneration of the members of the Supervisory Board is paid in the size established by the decisions of the General Meeting of Shareholders of the Bank (decisions of the sole shareholder), and specified in the Bank's annual financial statements for 2019 (Note 32 "Transactions with the Related Parties"). Except for individual members of the Supervisory Board, members of the Supervisory Board receive a fixed remuneration.

As a result of the verification of compliance of the Chairman and members of the Supervisory Board with the Ukrainian legislation, performed by the Bank in December 2019:

1) The Chairman and the members of the Supervisory Board of the Bank have higher education and substantial experience in the financial sphere, make informed decisions, which testifies to their competence and efficiency of work, which is confirmed by the results of the Bank's activity during the reporting year.

2) The Chairman and members of the Supervisory Board of the Bank comply with the requirements of the current Ukrainian legislation, as well as the qualification requirements for professional suitability and goodwill throughout their respective positions, and independent members of the Supervisory Board also comply with the requirements for their independence.

3) The Chairman and members of the Supervisory Board are not members of the Bank's Management Board.

4) The Chairman and members of the Management Board are not members of the Bank's Supervisory Board.

5) The Chairman and the members of the Supervisory Board of the Bank have impeccable business reputation, they are not participants or members of the governing bodies of a legal entity that competes with the Bank's activities.

6) There was no violation of internal rules by the members of the Supervisory Board, which resulted in damage to the Bank or to the Bank's customers.

7) State authorities did not apply enforcement actions to the members of the Supervisory Board of the Bank.

8) There were no facts of any conflict of interest, including potential conflicts of interest that have not been disclosed.

7.7. MANAGEMENT BOARD OF THE BANK.

The Management Board is a permanent collective executive body of the Bank, which manages the Bank's current activities, resolves issues within the competence determined by the Bank's Charter, the Regulations on the Management Board and current legislation of Ukraine, as well as is responsible for the Bank's performance according to the current legislation and the Charter.

The competence of the Management Board includes resolving all issues related to the management of the Bank's current activities, except for issues that fall within the exclusive

competence of the General Meeting and the Supervisory Board of the Bank. The General Meeting and the Supervisory Board may decide to transfer part of their respective powers to the competence of the Management Board except for the powers attributed to the exclusive competence of each of these management bodies of the Bank by the current legislation of Ukraine and the Charter of the Bank.

As of January 1, 2019, the Management Board of the Bank worked in the following composition:

The Chairman of the Management Board:	Svitlana Anatoliivna Korchynska
The Deputy Chairman of the Management Board:	Iryna Yaroslavivna Dvorzhanska
	Oksana Fedorivna Shveda
The members of the Management Board	Olena Mykolaivna Trush
	Yurii Volodymyrovych Hulkevych

During 2019 the following changes took place in the Management Board of the Bank:

- to dismiss Yurii Volodymyrovych Hulkevych as the Head of Treasury and a member of the Management Board, on February 18, 2019 by agreement of the parties, (Minutes of the Supervisory Board #6 dd 15.02.2019);
- to dismiss Olena Mykolaivna Trush as the Chief Accountant and a member of the Management Board, on April 01, 2019 at her own will (Minutes of the Supervisory Board #11 dd 26.03.2019);
- to elect (appoint) Ganah Vadym Vyacheslavovych as the Head of Treasury and a member of the Management Board since April 15, 2019 (Minutes of the Supervisory Board #15 dd 12.04.2019) and to release him at his own will (Minutes of the Supervisory Board #22 dd 03.06.2019);
- to elect (appoint) Kokodynskyi Viktor Oleksandrovych as the Head of Legal Department and a member of the Management Board since June 18, 2019 (Minutes of the Supervisory Board #24 dd 18.06.2019);
- to dismiss Oksana Fedorivna Shveda as the Deputy of the Head and a member of the Management Board, on August 30, 2019 by agreement of the parties, (Minutes of the Supervisory Board #31 dd 30.08.2019);
- to elect (appoint) Burovskyi Andriy Stanislavovych, the Head of Treasury, as a member of the Management Board, on January 1, 2020, (Minutes of the Supervisory Board #38 dd 27.12.2019)

The organizational form of the Management Board is the meeting, at which the it made decisions in 2019 according to its competence determined by the Bank's Charter and the Regulations on the Management Board.

During 2019, 53 meetings of the Management Board were held, including joint meetings with the Supervisory Board of the Bank. All meetings of the Management Board held were legitimate.

The Management Board consists of: the Chairman of the Management Board, the Deputy Chairman (Chairmen) of the Management Board and members of the Management Board. The Chairman of the Management Board heads the Management Board. The number of members of the Management Board is at least 5 (five) persons. The Supervisory Board of the Bank takes a decision on the number of members of the Management Board.

Any individual who has full legal capacity, is not a member of the Supervisory Board, is an employee of the Bank and complies with other requirements stipulated by the current legislation of Ukraine may be the Chairman of the Management Board, the Deputy Chairman of the Management Board, other member of the Management Board. The members of the Management Board should have a complete higher education in economics, management or law; experience in the banking system in the relevant specialty of at least three years; impeccable business reputation.

The Chairman of the Management Board, the Deputy Chairman of the Management Board and other members of the Management Board are elected to position and may be early dismissed or suspended from position according to the decision of the Supervisory Board. The Supervisory Board takes a decision on election of the Chairman of the Management Board, the Deputy Chairman of the Management Board and other members of the Management Board according to the procedure established by the Charter and internal documents of the Bank.

The Chairman of the Management Board shall assume office when the National Bank of Ukraine gives a written consent to this. The National Bank of Ukraine determines compliance with the professional aptitude and business reputation of other members of the Management Board or persons, who perform their duties for more than one month.

The Management Board is elected for an unlimited period, unless otherwise determined by the decision on appointment, the Charter or the legislation of Ukraine.

Termination of powers of the members of the Management Board. The powers of the Chairman of the Management Board, the Deputy Chairman of the Management Board and other members of the Management Board shall be terminated by the decision of the Supervisory Board. The causes for termination of powers of the Chairman of the Management Board, the Deputy Chairman of the Management Board and other members of the Management Board shall be established by the current legislation of Ukraine.

The Chairman of the Management Board is elected by the Supervisory Board. The powers, rights and duties of the Chairman of the Management Board are determined by the current legislation of Ukraine, the Charter and the Regulations on the Management Board.

The Chairman of the Management Board manages the work and organizes the work of the Management Board, convenes meetings, ensures keeping of minutes of the meetings.

The Chairman of the Management Board may, without limitation:

- act on behalf of the Bank without the power of attorney, including: represent the Bank in state institutions, enterprises of all forms of ownership and public organizations, in all law enforcement and regulatory authorities; make transactions on behalf of the Bank and carry out all legally binding actions; conclude and sign agreements, contracts;
- represent the Bank without a proxy, including in relations with other business entities and individuals in the territory of Ukraine and abroad;
- issue the powers of attorney on behalf of the Bank; distribute duties among the members of the Management Board of the Bank;
- issue orders and instructions binding on all employees of the Bank; employ and dismiss employees of the Bank, use incentives and take disciplinary action according to the current legislation of Ukraine, the Charter and internal documents of the Bank;
- establish forms, systems and procedure for payment of salaries to the employees of the Bank according to the current legislation of Ukraine, approve the staff schedule of the Bank and staff schedules of the separate units, determine the size of the salaries of all employees of the Bank;

- sign a collective agreement on behalf of the Bank; approve job descriptions of employees of the Bank;
- take measures for pre-trial settlement of disputes; sign claims, complaints and all documents relating to proceedings of claims and complaints; represent the Bank in courts with all rights granted by the law to the plaintiff, defendant, third party, including waive, in full or in part, the claims; recognize the claim; change the subject of the claim; conclude a settlement agreement; appeal against a court decision; file an enforcement order against a penalty or issue a power of attorney to commit the corresponding actions to the other person;
- participate in meetings of the Supervisory Board with the consultative capacity;
- perform other functions necessary to ensure the Bank's current activities.

The Chairman of the Management Board is personally responsible for the Bank's activities. The Chairman of the Management Board may not head structural subdivisions of the Bank.

In case of a temporary absence of the Chairman of the Management Board, the duties of the Chairman of the Management Board may be assigned to the Deputy Chairman of the Management Board based on the order of the Chairman of the Management Board. A person, to whom the duties of the Chairman of the Management Board are temporarily assigned for the period of his/her absence, has all powers of the Chairman of the Management Board of the Bank provided for by the legislation of Ukraine, the Charter and the Regulations on the Management Board, including powers to act without a power of attorney on behalf of the Bank and represent it in all institutions, enterprises and organizations.

If the Chairman of the Management Board is not appointed, the Acting Chairman of the Management Board is appointed by the Supervisory Board.

The members of the Management Board have the right to:

1) receive complete, accurate and timely information about the Bank necessary to perform their functions;

2) resolve issues (independently and in the composition of the Management Board) of operational management of the Bank's activities, assigned to their powers and functional responsibilities;

3) make proposals, participate in discussion and vote on the agenda items at the meetings of the Management Board;

4) initiate convening of meetings of the Management Board;

5) provide written comments on decisions of the Management Board;

6) request convening of extraordinary meetings of the Supervisory Board; 7) receive an equitable remuneration for performing the functions of a member of the Management Board, the size of which is established by the Supervisory Board.

Duties of the members of the Management Board:

1) act for the benefit of the Bank in good faith, reasonably and within their powers;

2) be guided in their activities by the current legislation of Ukraine, the Charter, this Regulation, other internal documents of the Bank;

3) comply with decisions made by the General Meeting and the Supervisory Board;

4) participate personally in meetings of the Management Board (including distantly), as well as attend the General Meeting at the invitation of the Chairman of the Supervisory Board or a person convening the meetings. If it is impossible to attend the General Meeting, inform

the person, from whom the invitation was received, in advance, specifying the reasons for such impossibility;

5) attend meetings of the Supervisory Board at the invitation of the Chairman or a member of the Supervisory Board. If it is impossible to attend the meeting of the Supervisory Board, inform the person, from whom the invitation was received, in advance, specifying the reasons for such impossibility;

6) be a part of the Bank's credit committees according to the procedures established in the Bank;

7) comply with statutorily prescribed rules and requirements for the conclusion of transactions when concluding transactions with participation of the Bank, in which there is the interest or conflict of interest;

8) adhere to the rules established in the Bank related to the regime of turnover, security and storage of the restricted information. Not disclose a banking secret, confidential and insider information that has become known in connection with performance of functions of a member of the Management Board, to persons, who do not have access to such information, as well as use it for their own benefit or for the benefit of third parties;

9) prepare timely for meetings of the Management Board, in particular, review the materials prepared for the meeting, collect and analyze additional information, if necessary, receive expert opinions, etc.;

10) manage certain designated areas of the Bank's activities and direct the activities of the subordinate structural subdivisions of the Bank according to the allocation of responsibilities among the members of the Management Board;

11) provide the General Meeting, the Supervisory Board, all members of the Management Board, internal and 5 external auditors of the Bank with a complete and accurate information on the Bank's activities and financial condition in time.

The functional responsibilities of each member of the Management Board are determined by the relevant job description, agreement (contract) with him/her, orders and instructions of the Chairman of the Management Board.

The following committees of the Management Board have been operated during 2019:

- Credit Committee
- Tariff Committee
- Asset and Liability Committee
- Financial Monitoring Committee

Composition of committees as of December 31, 2019:

- Credit Committee:
  - The Chairman: I. Y. Dvorzhanska
  - Members: V.O. Kokodynskyi, S. A. Korchynska, A.S. Burovskyi.
- Tariff Committee:
  - The Chairman: I. Y. Dvorzhanska
  - Members: V.O. Kokodynskyi, S. A. Korchynska, A.S. Burovskyi.
- Asset and Liability Committee:
  - The Chairman: I. Y. Dvorzhanska
  - Members: V.O. Kokodynskyi, S. A. Korchynska, A.S. Burovskyi.
- Financial Monitoring Committee:
  - The Chairman: I. Y. Dvorzhanska
  - Members: O. V. Starostenko, V. A. Velychko, S. V. Tyshchenko, K. S. Plakhtiienko, V. O. Kokodynskyi, M.O. Demkiv, Y.V. Sobolyev.

The Chairman and members of the Management Board comply with the qualification requirements of professional aptitude and business reputation established by the Law of Ukraine "On Banks and Banking", as well as laws and regulations of the National Bank, the Charter and internal documents of the Bank. The collective aptitude of the Management Board of the Bank corresponds to the size, peculiarities of the Bank's activities, the nature and scope of banking and other financial services, the Bank's risk profile, the systemic importance of the Bank and the activities of the banking group, which includes the Bank.

The Chairman and members of the Management Board have sufficient knowledge, skills and experience to perform effectively their functions, they have no conflict of interest (including potential) and signs of the lack of impeccable business reputation, as well as sufficient time to perform their functions taking into account duties of each member of the Management Board of the Bank.

As a result of the verification of compliance of the Chairman and members of the Management Board with the Ukrainian legislation, performed by the Bank in December 2019:

1) The Chairman and the members of the Management Board of the Bank have higher education and substantial experience in the financial sphere, make informed decisions, which testifies to their competence and efficiency of work, which is confirmed by the results of the Bank's activity during the reporting year.

2) The Chairman and members of the Management Board of the Bank comply with the requirements of the current Ukrainian legislation, as well as the qualification requirements for professional suitability and goodwill throughout their respective positions.

3) The Chairman and members of the Supervisory Board are not members of the Bank's Management Board.

4) The Chairman and members of the Management Board are not members of the Bank's Supervisory Board.

5) The Chairman and the members of the Management Board of the Bank have impeccable business reputation, they are not participants or members of the governing bodies of a legal entity that competes with the Bank's activities.

6) There was no violation of internal rules by the members of the Management Board, which resulted in damage to the Bank or to the Bank's customers.

7) State authorities did not apply enforcement actions to the members of the Management Board of the Bank.

8) There were no facts of any conflict of interest, including potential conflicts of interest that have not been disclosed.

Remuneration of the members of the Management Board is paid in the size established by the decisions of the Supervisory Board of the Bank, and specified in the Bank's annual financial statements for 2019 (Note 32 "Transactions with the Related Parties").

There was no violation of internal rules by the members of the Management Board, which resulted in damage to the Bank or to the Bank's customers.

During 2019 the Bank paid penalties for late filing (non-filing) of reports during 2018.

7.8. RISK MANAGEMENT SYSTEM OF THE BANK.

The risk management system of the Bank is aimed at ensuring the fulfillment of business objectives according to the development strategy, determined by the Bank, as well as increasing its value, optimizing the ratio of potential opportunities and risks, capital stock and growth rates of the Bank.

The main instruments for achieving certain objectives are the integrated risk management system, created at the Bank, which provides for the coordination of the actions of all units within a single risk management strategy approved by the Supervisory Board of the Bank. The formation of an integrated system is aimed at maximizing concentration of the risk management functions in the Bank, the continuous process of analysis of the situation and the environment, where the risks arise, as well as the adoption of managerial decisions regarding the impact on the risks and/or the level of vulnerability (exposure) of the Bank to such risks.

The risk management system of the Bank is based on the principles determined by the regulatory authorities and recommendations of the Basel Committee.

Allocation of functions and powers in risk management covers all organizational levels and subdivisions of the Bank. The principal risk management structure of the Bank includes participation of the Supervisory Board, the Management Board, profile committees, the Risk Management Service and structural subdivisions of the Bank in the risk management process.

The Supervisory Board of the Bank exercises control over the risk management implementation in the Bank, and the Management Board of the Bank implements the risk management system.

The Asset and Liability Committee determines the optimal composition of balances, plans financial performance and monitors their implementation, considers the cost of financing sources, controls the liquidity risk, interest and currency risks.

The Credit Committee manages credit and investment activities and monitors the credit risks associated with individual customers and the credit and investment portfolio in general.

The Tariff Committee regulates the fee income, analyzes the competitiveness of operating tariffs.

The Financial Monitoring Committee ensures implementation of the Bank's risk management policy for the legalization of criminal incomes/terrorist financing.

The risk management subdivision carries out a quantitative and qualitative assessment of the risks, the Bank faces or which may subsequently arise in its activities, as well as monitors the risk status and size.

The Risk Management Service carries out a quantitative and qualitative assessment of the risks, the Bank faces or which may subsequently arise in its activities, as well as monitors the risk status and size, namely:

- credit risk;
- liquidity risk;
- interest rate risk;
- market risk;
- operational risk;
- compliance risk;
- other significant risks (reputation risk, strategy risk, stock exchange professional activity).

The internal audit subdivision assesses a conformity of the risk management systems with the Bank's needs.

The structural subdivisions of the Bank perform operational risk management related to their activities according to the established levels of risk tolerance and limits, as well as are responsible for the results from acceptance of these risks. The Bank improves the process of reviewing the risk management system on a regular basis and ensures the timely updating of the interbank regulatory framework in case of changes in legislative, regulatory or normative requirements, the Bank's organizational structure and changes in the level of risk tolerance of the Bank.

The Bank has no audit commission established or there is no auditor's position.

Significant risk factors that affected the financial institution's activities during the year:

- Internal: small capital stock; short term of activities; limited capabilities of opening direct correspondent accounts; the brand of the Bank is used by customized media to discredit its founders.
- External: political and economic instability; imperfection of the judicial system of the country; frequent changes in banking regulation legislation; artificial decrease of the Bank's business reputation by the customized media against the background of an imperfect judicial system may limit the Bank's ability to expand its business relations.

7.9. SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT OF THE ISSUER.

The Bank has an effective system of internal control (the internal control system) and risk management of the issuer consisting of:

- process integration (introduction of control in processes);
- risk assessment on a regular basis;
- development and implementation of activities, with further evaluation of their efficiency.

The main principles of the Bank's internal control system are:

- validity and efficiency that means to organize a permanent process, implemented in the current activities of the Bank and understandable at all levels of the Bank;
- early risk management is to ensure the effective risk management;
- allocation of responsibilities that means ensuring the avoidance of a situation, when one person exercises full control over the function or area of activities of the Bank (separating the control function from making transactions of the Bank);
- comprehensiveness that means to cover all areas of the Bank's activities;
- timeliness that means to create the internal control system, which provides an opportunity to obtain information on a threat of losses incurred by the Bank earlier than such losses will be incurred;
- independence that means to allocate the functions of assessing the internal control system efficiency and the functions of its organization and implementation.
- confidentiality is to prevent the disclosure of information to persons not authorized to receive it.

For the effective performance of the Bank's activities, a continuous control was established over:

- compliance by the Bank's employees with the legislation, regulations and standards of professional activities;
- prevention of conflicts of interest;
- ensuring an adequate level of reliability that corresponds to the nature and scale of the transactions carried out by the Bank and mitigation of the risks of banking activities.

The subjects of the Bank's internal control system are:

- the Supervisory Board of the Bank;

- the Management Board of the Bank;
- the Internal Audit Service;
- the Risk Management Service;
- Compliance Manager;
- Chief Accountant and his/her deputies (if any);
- Managers and employees of the Bank's subdivisions (Services), which carry out internal control according to the powers determined by the Bank's internal documents (regulations, technological cards, procedures, job descriptions, regulations on structural/separate subdivisions of the Bank, decisions of collective bodies and management of the Bank).

The structure of the Bank's internal control system includes:

- Identification and assessment of risk, which includes identification and analysis of significant risks in order to identify risk management measures/procedures.
- Control measures/procedures are the actions necessary to mitigate the risks (determined by the Bank's internal documents). The Bank's control measures are valid at all organizational levels, when performing any functions of the Supervisory Board, the Management Board of the Bank, by the managers and employees of the Services.
- Information/report and communication means that the information on identified risks should be documented and transmitted in time to:
    - the Supervisory Board and the Management Board of the Bank for making management decisions;
    - Subdivisions/authorized employees of the Bank responsible for risk mitigation and control to improve the internal control system and carry out control procedures, personnel training, control procedures, draw up conclusions and proposals to the management of the Bank on improvement of control.
- Monitoring, which will allow assessing the quality and efficiency of the internal control system.

The Bank implements operation of the internal control system by:

- monitoring the compliance with the legislation of Ukraine and the Bank's internal procedures (compliance) by the management of the Bank (the Supervisory Board and the Management Board of the Bank);
- allocating responsibilities during the Bank's activities;
- monitoring the operation of the risk management system;
- monitoring the information security and information exchange;
- introducing the internal control procedures;
- monitoring the internal control system efficiency;
- introducing the internal audit procedures.

The organizational structure of the Bank is formed in such a way as to define clearly the duties, powers, functions and responsibilities by the areas of conducting, assessing and managing the internal control provided for in the regulations on the management bodies of the Bank, on the subdivisions and in job descriptions of the Members of the Management Board, employees of the Bank.

The Management Board of the Bank ensures formation of the regulations on all structural subdivisions of the Bank and provides them to the Supervisory Board of the Bank for approval.

The Chairman of the Management Board of the Bank ensures formation and approval of the job descriptions of all Bank's employees, while providing for a full description of all functions, tasks and responsibilities of employees.

The regulations regulating the Bank's processes/operations, procedures, banking products, as well as descriptions of all processes of the Bank with technological cards determine the allocation of responsibilities during the Bank's processes/operations, including on the internal control implementation.

The Management Board of the Bank implements the internal control procedures in all areas of the Bank's activities, in all processes and at all levels including due to the staff training of the principles and rules for building the system of internal control and risk management, including compliance, information security and financial monitoring.

The Bank is implementing and maintaining a process of independent evaluation of the internal control adequacy by means of introduction of the internal audit procedures.

The Bank introduced a management information system and an internal control and risk management reporting system.

The processes of control over the internal control system functioning include periodic review of the results of monitoring the internal control system efficiency (at least once a quarter) by the management of the Bank – the Management Board and the Supervisory Board of the Bank (including, but not limited to operation of the risk management system, information security and information exchange, compliance with the legislation of Ukraine and Bank's internal procedures/compliance).

The Bank introduced the following forms of control:

- **Preliminary control** that is conducted before the Bank's transactions;
- **Current control** that is conducted during the Bank's transactions and includes control over compliance with the legislative acts, internal documents of the Bank regarding these transactions, correctness of data entry into the Bank's software, procedure for making a decision on their implementation, control over complete, timely and accurate reflection of transactions in accounting and reporting, control over preservation of the Bank's property.
- **Further control** that is conducted after the Bank's transactions and includes verification of the validity and correctness of transactions, compliance of documents with the established forms and requirements for their execution, compliance of the duties performed by employees with their job descriptions, identification of the causes of violations and deficiencies, as well as determination of measures for their elimination, control over the target performance, determined in the Bank's development strategy, its business plans and budget, verification of the completeness and reliability of financial, statistical, managerial, tax and other reporting data generated by the Bank.
- **Internal audit control** means conducting the planned audit by the Internal Audit Service for independent assessment and control of efficiency of the internal control system, implemented bank risk management and control system, as well as the quality of organizing processes, conducting transactions by participants in processes and so forth.

The Bank introduced a three-level internal control system:

The first level includes the managers and employees of the Bank's subdivisions (control during daily transactions);

The second level includes the Management Board (the Bank's activities organization and review of its performance results), the Risk Management Service and the Compliance Manager (when monitoring the efficiency of the internal control system and performing inspections within monitoring the internal control system);

The third level includes the Supervisory Board (review of reports on the Bank's performance results and verification results of the internal control system organization) and the Internal Audit Service (carrying out periodic inspections of the Bank's activities and assessing the efficiency of the internal control system functioning).

7.10. THE QUALITY MANAGEMENT SYSTEM.

The Bank analyses regularly the Quality Management System (hereinafter referred to as the "QMS") according to the requirements of the Regulations on the Quality Management System of JSC "BANK AVANGARD". The following issues are considered during the analysis:

- status of actions based on results of the QMS preliminary analysis;
- changes in external and internal factors during the reporting period related to the QMS;
- information on the QMS efficiency, taking into account:
  - customer satisfaction, which is evaluated monthly by rating customers according to different indicators;
  - level of achieving the QMS objectives for the reporting period;
  - efficiency of processes and compliance of banking products based on the user opinions on the quality and timeliness of managerial reporting;
  - revealed inconsistencies and applied corrective actions, which are recorded in the reports on the results of further control of the internal control system, the incident basis;
  - results of the QMS monitoring and measurement, which are recorded in the reports on the results of further control of the internal control system;
  - results of audits (inspections);
  - efficiency of external service providers;
- sufficient resources to ensure the QMS functioning and development;
- evaluation of the control efficiency determined by the results of the non-financial risk assessment;
- results of monthly assessments of credit risk and liquidity risk;
- results of quarterly stress testing of all types of risks;
- opportunities for improving the quality of the Bank's processes and products.

According to the results of the Quality Management System analysis for 2019, it was established that:

- QMS organization and functioning of JSC "BANK AVANGARD" does not require significant changes;
- the QMS resources are secured at sufficient level;
- areas for improving the QMS can be:
  - further implementation of automation of transactions and reduction of processing time of the customer's payment orders;
  - expansion of electronic document flow in the banking products;
  - introduction of mechanisms for receiving feedback for external and internal customers of the Bank's processes;
  - introduction of additional controls over the processes, where the realized risk was recorded.

7.11. INTERNAL AUDIT SERVICE.

The Internal Audit Service is an independent structural subdivision of the Bank, an integral part of the internal control system and reports to the Supervisory Board of the Bank. As of January 1, 2020, the Internal Audit Service subdivision has 1 employee – the Head of the Internal Audit Service.

The Internal Audit Service performed the following work in 2019:

- Carry out audits according to the approved Audit Plan for 2019;

- Support of external audit to confirm the annual financial statements according to the international standards (Baker Tilly Ukraine AF);
- Preparation of quarterly reports to the Management Board and the Supervisory Board;
- Monitoring of the incident base;
- Another current work.

The Internal Audit Service conducted thematic audits in 2019 according to the annual plan approved by the Supervisory Board. All scheduled audits are complete.

According to the audit results, relevant recommendations were provided (2 recommendations were provided for 2019).

The internal regulatory documents of the Bank regulating the internal audit procedures comply with the requirements of laws and regulations of the National Bank of Ukraine, in particular, the Resolution of the National Bank of Ukraine No. 311 dated May 10, 2016 *"On Approval of the Regulations on the Internal Audit Organization in the Banks of Ukraine"*. The internal audit procedures are carried out subject to the requirements of the internal regulatory documents of the Bank and the requirements of laws and regulations of the National Bank of Ukraine.

The internal audit system functioning is evaluated as "good" in general.

7.12. EXTERNAL AUDITOR OF THE BANK.

By the decision of the Supervisory Board of the Bank (Minutes No. 32 dated September 27, 2019), the audit firm BAKER TILLY UKRAINE LLC was elected as the external auditor. Concerning the activities of BAKER TILLY UKRAINE LLC:

- the total experience of auditing is more than 19 years;
- a number of years during which BAKER TILLY UKRAINE LLC provides audit services to the Bank is 7 years;
- there were no cases of conflicts of interest and/or combinations of performing functions of the internal auditor during the period of cooperation with the Bank.
- there were no penalties imposed on BAKER TILLY UKRAINE LLC by the Audit Chamber of Ukraine during the year, as well as the facts of submitting the unreliable reporting by a financial institution, as confirmed by the auditor's report, revealed by the authorities that carry out the state regulation of financial services markets;
- there were no recommendations on the auditor's report by the authorities that carry out the state regulation of financial services markets.

BAKER TILLY UKRAINE LLC has not provided other audit services to the Bank during the year.

7.13. SIGNIFICANT TRANSACTIONS.

By the decision of the Shareholder of the Bank dated January 3, 2019, the Bank is allowed to make significant transactions from January 1, 2019 to December 31, 2019 (inclusive) each amounting to UAH 350.00 million (inclusive) in respect of: conducting purchase/sale and REPO transactions of the domestic government loan bonds of Ukraine and/or deposit certificates of the National Bank of Ukraine; conducting purchase/sale transactions with foreign currency; attraction of financial resources in the interbank market; attraction of financial resources from customers, as well as implementation of credit transactions, which are fully provided with a cash cover and/or a pledge of property rights for a contribution to the Bank. When conducting the active transactions, the Bank shall adhere to the debt limit

of one counterparty (mandatory economic norm N7, established by the National Bank of Ukraine) both during external settlements and during the validity period of this transaction, except for transactions under agreements that provide for the advance payments in favor of the Bank. The above limitations do not apply to transfer of funds between own correspondent accounts of the Bank (NOSTRO accounts) in correspondent banks, the size (limits) of which is determined by a separate decision on determination of the correspondent account balance limit.

By the decision of the Shareholder of the Bank dated February 15, 2019 the Chairman of the Board S. Korchynska (or in her absence - the Acting Chairman of the Board) is authorized to conclude an agreement to amend the General Credit Agreement with the National Bank of Ukraine. Establish the maximum amount of obligations under the General Credit Agreement, taking into account the value of the pool of pledged assets for a total amount of 1,200,000,000.00 (one billion two hundred million) UAH.

By the decision of the Shareholder of the Bank dated March 21, 2019 the Chairman of the Board S. Korchynska (or in her absence - the Acting Chairman of the Board) is authosrized to conclude a general agreement on the sale and purchase of foreign currency on the terms of "swap" with the National Bank of Ukraine and additional agreements thereto. To set the maximum amount of the agreement within the framework of the General Agreement on the Procedure of Buying and Selling Foreign Currency and Swap Terms and Conditions with the National Bank of Ukraine in the amount of UAH 1,200,000,000.00 (one billion two hundred million) UAH.

By the decision of the Shareholder of the Bank dated April 24, 2019 the Bank is authorized to commit from 01.05.2019 to 31.12.2019 significant transactions each up to UAH 1,000.00 million. in respect of: conducting active credit risk related transactions with the National Bank of Ukraine, including, but not exclusively, operations of buying / selling deposit certificates of the National Bank of Ukraine.

7.14. RELATIONS WITH SHAREHOLDERS AND RELATED PARTIES, THE IMPACT OF THESE RELATIONS ON THE PERFORMANCE RESULTS AND THEIR MANAGEMENT.

The Bank carried out transactions with related parties under the general conditions in 2019. Transactions with related parties are mainly of the resource nature.

The Bank did not carry out any credit transactions with the Bank's shareholders and holders of a substantial shareholding in the Bank.

Information on the related-party transactions, on balances of the related-party transactions for 2019, income and expenses from the related-party transactions for 2019, total credits granted to the related parties and repaid by the related parties during 2019, as well as other rights and obligations under the related-party transactions at the end of the reporting period for 2019, is specified in the Annual Financial Statements of the Bank for 2019.

7.15. PROTECTION OF THE FINANCIAL SERVICE CONSUMERS' RIGHTS BY THE BANK.

The Bank protects the rights of consumers of the Bank's services according to the current legislation of Ukraine, including the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets" and the Law of Ukraine "On Consumer Lending".

Consumer complaints are received in the form of messages addressed to the Bank or e-mails addressed to: hotline@avgd.ua.

Each message is definitely checked and a feedback is given.

The Compliance Manager of the Bank – Padalka Antonina Oleksandrivna considers complaints (messages).

The Bank did not receive any complaints regarding the provision of financial services in 2019.

There are no lawsuits against the provision of financial services by the Bank in 2019.

8. CONCLUSION.

During the reporting 2019 year, the Bank has been performing its activities according to the requirements of the Corporate Governance Code of the Bank, the requirements of the current legislation of Ukraine, internal documents of the Bank, conducted income-generating activities, adhered to the strategy determined by the shareholders of the Bank and achieved performance targets and objectives for 2019.

Chairman of the Management Board **S. A. Korchynska**

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Supervisory Board of Joint-Stock Company "BANK AVANGARD"
To the National Bank of Ukraine
To the National Securities and Stock Market Commission

Report on the financial audit

Opinion

We have audited the financial statements of JOINT-STOCK COMPANY "BANK AVANGARD" (the Bank), which comprise:

- statement of financial position as of the end of December 31, 2019;
- statement of profit and loss and other comprehensive income for 2019;
- statement of cash flow for 2019 (direct method);
- statement of equity for 2019;
- 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 of December 31, 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), and meets the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine".

Basis for opinion

We conducted an audit in accordance with International Standards on Auditing ("ISA"). Our responsibility under these standards is described in *"Auditor's Responsibilities for the Audit of Financial Statements"* section of our report. We are independent in relation to the Bank in accordance with the *Code of Ethics of Professional Accountants* of International Ethics Standards Board for Accountants *(IESBA Code*) and ethical requirements applicable in Ukraine to our audit of financial statements, and also performed other ethical obligations in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters including the most significant estimated risks of material misstatement, in particular, estimated risks of material misstatement due to fraud

Key audit matters are those matters that, in our professional judgment, were of the most significance during our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole and were taken into account in forming an opinion thereon. Upon that, we do not provide a separate opinion on these matters. We identified that matters described below are the key audit matters to be reflected in our report.

BAKER TILLY UKRAINE LLC trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

Key Audit Matter	How the key audit matter was addressed in the audit
Provisions for covering losses due to loans impairment, debtors, loans granted to other banks amount to UAH 14,666 thousand.	
See Notes 7, 8 and 4.4	
We have an increased focus on this area as a key audit matter due to the balance materiality on clients' loans and debtors, bank loans and debts, and the subjective nature of judgments used in impairment calculation. Provisions for covering losses due to impairment reflect assessment of the management of expected loss on portfolios of loans and debtors as of the reporting date. Assessment of the expected loan losses on financial tool is carried out in a way that reflects: the objective and probable amount determined by means of estimating a certain range of possible results, time value of money, reasonable and verifiable information about past events, current conditions and forecasts of future economic conditions, taking into account all reasonable and verifiable information, including the forecast one. Detection of a significant increase in credit risk, impairment and determination of the expected reimbursement amount includes certain assumptions and analysis of various factors, including the financial position of the borrower, expected future cash flows, market prices, available for observation, fair collateral value. The use of different models and assumptions may lead to different estimates of the provision for loans and debtors' impairment.	Our procedures included, but were not limited to the following: - Testing of the internal control system introduced by the management in terms of calculation of provisions for covering losses due to loans impairment and debtors on both individual and collective basis. - We also independently evaluated the appropriateness of management opinion regarding the used methodology of calculation and inputs for past events, current conditions and forecast information for calculating default probability factors, as well as collateral reimbursement and value. - Regarding provisions for loans impairment with identified individual depreciation marks, we have tested the assumptions underlying the impairment identification and its quantification, including analysis of the borrowers' financial position, forecasts for future cash flows and collateral valuation. Regarding provisions for loans impairment without identified individual depreciation marks, calculated on a collective basis, we tested the models used and the input data used in these models and their mathematical accuracy. We did not find any significant discrepancy based on the results of these tests.

Other information

The management staff is responsible for the other information. The other information comprises the Management Report for 2019, which includes a Corporate Management Report as a separate section (but is not financial statements and our auditors' report thereon) which we obtained prior to the date of this auditors' report, and the Annual information on the issuer of securities for 2019 (containing a Corporate Management Report), which we expect to receive after this date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information mentioned above and, upon that, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained at the audit, or whether this other information seems to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We found no facts to be included in the report.

When we learn the Annual Information of the Issuer of Securities for 2019, if we come to the conclusion that it contains a material misstatement, we will need to inform on this matter those who have the highest authorities.

Responsibility of the management staff and those who have the highest authorities for financial reporting

The management staff is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", and for such internal control system, as the management staff determines as necessary to enable preparation of financial statements free from material misstatement due to fraud or error.

In preparing the financial statements, the management staff 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 the management staff either intends to liquidate the Bank or to cease operations, or have no realistic alternatives but to do so.

Those who have the highest authorities are responsible for the supervision over the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an auditors' 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the users' economic decisions taken on the basis of these financial statements.

Performing an audit in accordance with ISA, we use professional judgment and professional skepticism throughout the audit task. Besides we:

- identify and assess the risks of material misstatement of the financial statements due to fraud or error, develop and perform audit procedures responsive to those risks, as well as obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than due to error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or neglecting of internal control measures;

- obtain understanding of internal control measures relevant to the audit in order to develop audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control system;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures of information made by the management staff;

- conclude on the appropriateness of the going concern basis of accounting use by the management staff 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 there is a material uncertainty, we are required to draw attention in our auditors' report to the related disclosures of information in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained prior to the date of our auditors' 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 of information, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those who have the highest authorities on information, among other matters, about the planned scope and timing of the audit and significant audit findings, including any material deficiencies in internal control measures which we've identified during the audit.

We also provide those who have the highest authorities with statements that we have complied with relevant ethical requirements regarding independence, and communicate with them on all relationships and other matters that may reasonably be considered to be such as to affect our independence, and where applicable, on related safeguards.

From the matters communicated with those who have the highest authorities, we've determined those of the most significance in the audit of the financial statements of the current period, that is matters being the key audit matters. We describe these matters in our auditors' report, unless legislative or regulatory act precludes public disclosure of the matter, or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report as the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other information required by Article 14 of the Law of Ukraine "On Financial Audit and Auditing Activities"

In accordance with the requirements of Article 14 of the Law of Ukraine "On Financial Audit and Auditing Activities", in our independent auditors' report we present the following information required in addition to the International Standards on Auditing:

Purpose and duration of the audit task

We were appointed as auditors by the decision of the Supervisory Board of the Bank on September 27, 2019 to perform the statutory audit of the Bank's financial statements for the year ended on December 31, 2019. Total duration of the audit task on the statutory audit of the Bank's financial statements performing by us, without interruptions, taking into account the continuation of the powers obtained and reappointments, is 7 years.

Provision of non-audit services and independence

We confirm that as far as we know and convinced, we did not provide the Bank or its controlled business entities with non-audit services prohibited by law, as specified in part four of Article 6 of the Law of Ukraine "On Financial Audit and Auditing Activities". We, including the key audit partner, were independent in relation to the Bank in conducting our audit.

We have provided the Bank or the entities controlled by it with the following services, except for statutory audit services not disclosed in the financial statements or in the Management Report: assessment of the Bank's assets quality and eligibility of collateral for loans as of January 1, 2019, within the framework of fulfilling the requirements of the Terms of Reference for the assessment of stability of banks and banking system of Ukraine, approved by the decision of the Board of the National Bank of Ukraine No. 97-RSH dated February 5, 2019.

Consistency with an additional report for the audit committee

We confirm that our audit opinion on financial statements set out in this independent auditors' report is in accordance with the additional report for the Audit Committee of the Supervisory Board of the Bank.

Consistency of management report with financial statements

Based on results of the work carried out in the course of audit, taking into account knowledge and understanding of the Bank's activities and conditions of its work formed in the course of audit, in all material aspects:

- the Management Report which includes a Corporate Management Report of JSC "BANK AVANGARD" for 2019, has been prepared in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", "Instructions on the Procedure for Preparation and Publication of Financial Statements of Banks of Ukraine", approved by the NBU Resolution No. 373 dated October 24, 2011, and other applicable legislative and regulatory acts, and the information provided therein is consistent with the financial statements;

- we found no material misstatement of information in the Management Report.

Explanations on the audit effectiveness in terms of identifying violations, in particular those related to fraud

The objectives of our audit regarding fraud are to identify and assess the risks of financial statements material misstatement due to fraud, to obtain sufficient reasonable audit evidence about the assessed risks of material misstatement due to fraud by means of appropriate audit procedures performing in response to these risks, as well as to take necessary measures regarding actual or suspected fraud cases detected in the course of the audit. However, the primary responsibility for fraud preventing and detecting is borne by those who have the highest authorities and the management staff of the Bank.

Identification and assessment of potential risks related to violations	**Actions in response to assessed risks**

In identifying and assessing material misstatement risks in terms of detecting violations, in particular those related to fraud and non-compliance with legislative and regulatory requirements, our procedures included, among others, the following:
- requests for management staff and for those who have the highest authorities, including receipt and revision of the supporting documentation on the Bank's policy and procedures regarding:
  - identification, assessment and compliance with legislative and regulatory requirements, as well as availability of information about any cases of violation thereof;
  - detection and response to fraud risks and availability of information about any actual, suspected or anticipated fraud; and
  - internal controls implemented to reduce risks related to fraud or non-compliance with legislative and regulatory requirements.
- discussion by audit task team members of the circumstances under which and at what stage the Bank's financial statements may be exposed to material misstatement due to fraud, including fraud way. Within this discussion, we identified the potential for fraud in the following areas: revenue recognition, neglecting of control measures by the management staff; and
- understanding of the legislative and regulatory acts applicable to the Bank and forming the legal and regulatory basis for its activities. Upon that we paid special attention to those laws and regulations that influenced directly the financial statements or which had a fundamental impact on the Bank's activities. Key laws and regulations we discussed in this context included the Law of Ukraine "On Banks and Banking" and regulatory acts of the National Bank of Ukraine in the area of licensing and prudential supervision, the Law of Ukraine "On Securities and Stock Market" and applicable regulatory acts of the National Securities and Stock Market Commission, the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets".
	As a result of the performed procedures for risks identification assessment, any matters associated with the potential risk of fraud or non-compliance with legislative and regulatory requirements were not identified as key audit matters by us.
	Our procedures in response to other identified risks, among others, were as follows:
	- review of financial statements disclosures and supporting documentation testing in order to assess compliance with the requirements of the relevant laws and regulations considered in this section;
	- management staff request to those who have the highest authorities and to internal lawyers on existing and potential court actions and claims;
	- analytical procedures performing in order to identify any unusual or unexpected relationships that may indicate the risks of material misstatement due to fraud;
	- familiarization with the minutes of meetings of those who have the highest authorities and review of internal audit reports;
	- testing the compliance of information reflected in the financial accounting and adjustments; assessment of whether judgments and decisions made by the management staff at accounting estimates determination mean the existence of bias; evaluating the economic feasibility regarding significant operations which are unusual or beyond the normal course of business.
	We also informed all audit task team members on the relevant identified laws and regulations, potential risks of fraud, and were watchful throughout the audit regarding any signs of fraud or failure to comply with laws and regulatory acts.

Other matters

Based on results of the work carried out in the course of audit, taking into account knowledge and understanding of the Bank's activities and conditions of its work formed in the course of audit, in all material aspects:

- information contained in the Corporate Management Report as a part of Management Report of JSC "BANK AVANGARD" for 2019, in accordance with the requirements of clauses 1–4, part three of Article 40[1] of the Law of Ukraine "On Securities and Stock Market", was prepared in accordance with the requirements of the Law of Ukraine "On Securities and Stock Market" and other applicable legislative and regulatory requirements, and is consistent with the financial statements;

- in our opinion the Corporate Management Report as a part of the Management Report of JSC "BANK AVANGARD" for 2019, responsibility for which is borne by the management staff of the Bank, contains all the information required in clauses 5–9, part three of Article 40[1] of the Law of Ukraine "On Securities and Stock Market".

Other legislative and regulatory requirements

Reporting required by the Law of Ukraine "On Banks and Banking Activity" and the "Regulations on the procedure for the auditors' report on the financial statements annual audit filing to the National Bank of Ukraine by the Bank", approved by the Resolution of the National Bank of Ukraine (hereinafter referred to as NBU) No. 90 dated February 08, 2018

In accordance with the requirements of the Law of Ukraine "On Banks and Banking Activity" and the "Regulations on the procedure for the auditors' report on the financial statements annual audit filing to the National Bank of Ukraine by the Bank", approved by the Resolution of the National Bank of Ukraine (hereinafter referred to as NBU) No. 90 dated February 08, 2018, the auditors' report should also contain information (assessment) concerning:

1) compliance (accuracy of reflection) of data on bank assets and liabilities distribution by maturity periods in a file with indicators of statistical reporting A7X "Data on the structure of assets and liabilities by periods" prepared by the Bank for submission to the National Bank, as of January 1 of the year following the reporting one;

2) the bank's compliance with the requirements established by laws and regulations of the National Bank on:

- internal control;
- internal audit;
- credit exposure on active banking transactions;
- recognition of persons associated with the bank and carrying out transactions with them;
- bank's capital adequacy, which should be determined taking into account the bank's assets quality;
- accounting record-keeping.

The purpose of the audit was to express an opinion on whether the Bank's annual financial statements for 2019 accurately reflect the financial position of the Bank in accordance with International Financial Reporting Standards in all material respects.

The information contained in this report is the result of performing the procedures by us within the audit of the Bank's annual financial statements for 2019. The mentioned information is obtained on the basis of selective testing and in the volumes required for audit procedures planning and conducting in accordance with the requirements of International Standards on Auditing.

This report is intended for information and use by the management of the Bank and the National Bank of Ukraine, and cannot be used by any other party. When familiarizing with this report, the limited nature, as described above, of the procedures for evaluating matters related to the Bank's activities, organization of the accounting and internal control system should be taken into account.

Besides, it should be taken into account that the criteria of our assessing the matters related to the Bank's activities, organization of accounting and internal control system may differ from the criteria applied by the National Bank of Ukraine.

According to the results of performing the audit procedures by us within the audit of the annual financial statements, we provide information (assessments) regarding the above issues:

As a result of our audit procedures within the annual financial statements audit, we have found no evidence of non-compliance by the Bank with the requirements of the National Bank of Ukraine on the compliance (accuracy of reflection) of data on bank's assets and liabilities distribution by maturity periods in a file with indicators of statistical reporting A7X "Data on the structure of assets and liabilities by periods" prepared by the Bank for submission to the National Bank, as of January 1 of the year following the reporting one, namely as of January 01, 2020.

Regarding the compliance of the bank with the requirements established by laws and regulations of the National Bank on issues of:

internal control

As a result of our audit procedures within the annual financial statements audit, we have found no evidence that the Bank's structure and internal control measures do not meet the requirements of laws and regulations of NBU, in particular, the Resolution of the National Bank of Ukraine No. 88 dated July 2, 2019 "On Approval of the Regulation on organization of internal control system in the banks of Ukraine and banking groups".

internal audit

In our opinion, at the time of the audit, the Bank's internal regulatory documents, which regulate internal audit procedures, are in compliance with the requirements of laws and regulations of NBU, in particular, of the Resolution of the National Bank of Ukraine No. 311 dated May 10, 2016, "On Approval of the Regulations on the Internal Audit Organization in the Banks of Ukraine". Internal audit procedures are carried out in compliance with the requirements of the Bank's internal regulatory documents.

credit exposure on active banking transactions

Credit risk amount as of the reporting date is calculated by the Bank in accordance with the requirements of laws and regulations of the National Bank, including the Regulation on the determination by banks of Ukraine of the credit exposure on active banking transactions, approved by NBU Board Resolution No. 351 dated June 30, 2016 (hereinafter referred to as NBU Resolution No. 351).

As a result of our audit procedures within the annual financial statements audit, we have found no material deviations from the credit risk calculation made by the Bank as of December 31, 2019.

recognition of persons associated with the bank and carrying out transactions with them

As a result of our audit procedures within the annual financial statements audit, we have found no evidence of the Bank's risk management system mismatch in the course of transactions with related persons, procedures for identifying the persons associated with the Bank and transactions with them with the requirements of laws and regulations of NBU. In course of the audit, we have found no violations of regulatory requirements in terms of carrying out transactions with related parties.

bank capital adequacy, which should be determined taking into account the bank's assets quality

The authorized capital of the Bank as of December 31, 2019 is sufficient and amounts to UAH 300,120 according to the Bank (See Note 18 "Authorized Capital").

As of December 31, 2019, the regulatory capital of the Bank amounts to UAH 326,897, that corresponds to the requirements of laws and regulations of NBU (see Note 28 "Capital Management").

accounting record-keeping

The Bank's accounting system meets the requirements of NBU laws and regulations, as well as accounting policy of the Bank.

Reporting required by "Requirements for the auditors' report submitted to the National Securities and Stock Market Commission upon obtaining a license for professional activity in the securities market" approved by the decision of the National Securities and Stock Market Commission No. 160 dated February 12, 2013

According to the Requirements for the auditors' report submitted to the National Securities and Stock Market Commission upon obtaining a license for professional activity in the securities market approved by the decision of

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the National Securities and Stock Market Commission (hereinafter referred to as NSSMC) No. 160 dated February 12, 2013, we provide the following information and conclusions:

basic information about the Bank

full name – JOINT-STOCK COMPANY "BANK AVANGARD"

identification code of a legal entity in the Unified State Register of Enterprises and Organizations of Ukraine, specified in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Associations – 38690683

location – 3, Sholudenka Street, Kyiv, 04116, Ukraine

date of state registration – April 23, 2013

principal activities – other types of monetary intermediation

date of amendments to the constituent documents – the latest version of the charter was approved by the general meeting of shareholders dated March 02, 2018 (minutes No. 8), agreed by NBU on March 19, 2018

list of participants (shareholders) (individuals – surname, name and patronymic, legal entities – name, legal form, location), owning 5 % or more shares (stocks) as of the date of drawing up the auditors' report, indicating the actual number of this size – WESTAL HOLDINGS LTD (location: Arch. Makariou III, 140, Raptopoulos Building, 3rd floor, office 301, 3021 Limassol, Republic of Cyprus), which is a holder of substantial share in the Bank and holds directly 100.00 % of the authorized capital of the Bank as of January 01, 2020 (see Note 1 "General information on the Bank activity").

regarding the compliance of the equity capital amount according to the data of the applicant of financial statements, compiled for the last reporting period preceding the date of filing the application for the license issue, requirements established by the Commission's laws and regulations

The size of the Bank's capital according to the audit data meets the requirements established by the laws and regulations of NSSMC.

regarding the compliance of the authorized capital with the constituent documents

The authorized capital of the Bank as of December 31, 2019 corresponds to the constituent documents of the Bank and amounts to UAH 300,120 (See Note 18 "Share capital").

As it is noted in Note 18 "Authorized Capital", throughout a year the Bank registered an increase in the notional amount of ordinary registered shares at the expense of the previous years profit.

regarding the formation and payment of the authorized capital (paid in full or in part, documents (with name, date, number indication), on the basis of which the auditors decision is made). If the authorized capital is paid not in full, the amount of the paid and unpaid parts of the authorized capital is indicated

According to the audit, the authorized capital of the Bank is paid in full. We give information on formation and payment of the authorized capital: at the time of the Bank's establishment, the authorized capital amounted to UAH 122,000, and was fully paid in cash on April 08, 2013 (according to the certificate of the National Bank of Ukraine dated April 09, 2013). Further changes of the authorized capital:

Minutes of the Bank GMS	**Decisions on the authorized capital**	**Documents on increase/payment**
No. 5 dated April 24, 2015	Increase the authorized capital by UAH 14,518,000 at the expense of profit part by means of shares nominal value increasing	Memo slips: No. 2244 dated September 16, 2015, for the amount of UAH 14,516,572, No. 2245 dated September 16, 2015, for the amount of UAH 1,428.
No. 6 dated April 08, 2016	Increase the authorized capital by UAH 25,864,000 at the expense of profit part by means of shares nominal value increasing	Memo slips: No. 2967 dated May 18, 2016, for the amount of UAH 25,861,456, No. 2966 dated May 18, 2016, for the amount of UAH 2,544.
No. 7 dated April 07, 2017	Increase the authorized capital by UAH 46,116,000 at the expense of profit part by means of shares nominal value increasing	Memo slips: No. 2820 dated April 11, 2017, for the amount of UAH 46,111,464, No. 2821

		dated April 11, 2017, for the amount of UAH 4,536.
No. 8 dated March 02, 2018	Increase the authorized capital by UAH 91,622,000 at the expense of profit part by means of shares nominal value increasing	Memo slips: No. 1218 dated March 03, 2018, for the amount of UAH 9,012, No. 1219 dated March 03, 2018, for the amount of UAH 91,612,988.

regarding the absence of the applicant's overdue liabilities to pay taxes (presence/absence of a tax debt) and fees, unpaid fines for violating the law on financial services, including those at the securities market

According to the Bank, as of the audit date, there are no overdue liabilities to pay taxes and fees, unpaid fines for violating the laws on financial services, including those at the securities market.

regarding the directions of use of funds deposited for the formation of the authorized capital of a legal entity, which, in accordance with the charter, intends to carry out professional activities on the securities market from the date of creation or from the date of amending the charter on the enterprise's principal activities.

According to the audit, funds deposited for the formation of the authorized capital of the Bank are used by the Bank to carry out activities stipulated by the charter and not prohibited by the current legislation. The main aspects of the Bank's activities:

- securities trading (mainly domestic government bonds);
- REPO (repurchase agreement) transactions with the domestic government loan bonds;
- active participation in the interbank credit market;
- Forex transactions (including currency forwards).

regarding the applicant's related persons, identified by the auditor in the course of performing the financial statements audit procedures

In the course of the financial statements audit procedures, no undefined related persons, transactions with which are not reflected in Note 32 "Transactions with related parties" are identified.

regarding availability and volume of contingent assets and/or obligations, probability of balance sheet acknowledgment of which is rather high

In course of the financial statements audit procedures, no contingent assets and/or obligations are identified, probability of balance sheet acknowledgment of which is rather high.

regarding events after the balance sheet date, which are not reflected in the financial statements, but may have a material effect on the applicant's financial position

In course of the financial statements audit procedures, no events after the balance sheet date are identified, which are not reflected in the financial statements, but may have a material effect on the Bank's financial position (see Note 33 "Events after the balance sheet date").

regarding availability of other facts and circumstances which may significantly affect the applicant's future activities and assessing the influence thereof

According to the audit results, we have found no facts and circumstances which may affect the Bank's future activities significantly.

In a point of fact, in our opinion, the Bank's financial investments composition and structure do not endanger the Bank's future activities.

As of December 31, 2019, the Bank's financial investments composition and structure are as follows:

- Investments in government bonds with a book value of UAH 466,805 thousand.
- Investments in NBU deposit certificates with a book value of UAH 333,420 thousan.

(see Note 9 "Investments in securities")

basic information about the terms of the audit contract

date and number of the audit contract – No. 192/19 dated October 21, 2019

date of the audit commencement and completion – October 22, 2019 and February 28, 2020.

Key audit partner

Partner of the audit task, the result of which is this independent auditors' report, is Nersesian Hahik Serhiiovych.

Director General

BAKER TILLY UKRAINE LLC Oleksandr Pochkun

Registration number of the auditor in the Register of auditors and audit entities: No. 100810.

Partner

BAKER TILLY UKRAINE LLC Hahik Nersesian

Registration number of the auditor in the Register of auditors and audit entities: No. 100799.

Auditor

BAKER TILLY UKRAINE LLC Oleksandr Luksha

Registration number of the auditor in the Register of auditors and audit entities: No. 100785

March 10, 2020

Kyiv, Ukraine

Basic information about the audit firm

Full name: BAKER TILLY UKRAINE Limited Liability Company
Location: 3, Hrekova Street, apt. 9, Kyiv, 04112
Actual address: 28, Fizkultury Street, Kyiv, 03150.
Registration number in the Register of auditors and audit entities: No. 2091.

Statement of Financial Position as at 31 December 2019

(in UAH thousand)

	(Note)	2019	2018
Assets			
Cash and cash equivalents	6	76 752	57 575
Due from other banks	7	31 701	-
Loans and advances to customers	8	103 116	157 361
Investments in securities	9	800 225	699 929
Derivative finance assets	10	-	4 865
Current tax receivables		4 756	4 080
Deferred tax assets	24	2 155	5 235
Fixed and intangible assets	11	2 543	1 941
Right-of-use assets	11	797	-
Other assets	12	2 487	3 051
Total assets		**1 024 532**	**934 037**
Liabilities			
Due to banks	13	288 212	-
Due to customers	14	394 670	586 826
Derivative finance liabilities	15	36	2 418
Current tax liabilities		-	-
Other liabilities	17	8 376	22 479
Provisions for liabilities	16	74	101
Total liabilities		**691 368**	**611 824**
Equity			-
Share capital	18	300 120	300 120
Reserves and other funds		23 890	14 188
Retained earnings (losses)		10 100	9 577
Revaluation reserves	19	(946)	(1 672)
Total equity		**333 164**	**322 213**
-Total liabilities		**1 024 532**	**934 037**

Authorized for issue and signed by:

Chairman of the Board /S. Korchynska /

Chief Accountant /N. Derkachenko /

10 March 2020

Statement of Comprehensive Income for 2019

(in UAH thousand)

	(Note)	2019	2018
Interest income	21	135 493	172 752
Interest expenses	21	(55 091)	(49 692)
Net interest income/(Net interest expense)		**80 402**	**123 060**
Fee and commission income	22	10 179	13 416
Fee and commission expenses	22	(2 045)	(1 709)
Result from transactions with financial instruments, that are recognized at fair value through profit or loss		11 382	(1 002)
Gains on securities trading transactions in trading portfolio		8 084	(8 492)
Gains on foreign exchange transactions		19 404	10 087
Gains on foreign currency revaluation		(16 883)	(16 404)
Gains/(losses) that arise from initial recognition of financial assets at an interest rate that is higher or lower than the market rate		-	(14 813)
Net (increase)/decrease provision for impairment of financial assets		29 754	42 709
Net (increase)/decrease in provisions for liabilities	16	28	(1)
Net gain/(loss) from derecognition of financial assets carried at amortized cost		-	1 637
Other operating income		381	18
Salaries and wages	23	(27 068)	(24 821)
Depreciation and amortization	23	(1 629)	(585)
Administrative and other operating expenses	23	(99 520)	(110 326)
Profit / (Loss) before tax		**12 469**	**12 774**
Income tax expenses	24	(2 244)	(2 309)
Net profit for the year		**10 225**	**10 465**
Other comprehensive income			
Items to be reclassified in profit or loss			
Revaluation of available-for-sale securities in trading portfolio		885	745
Income tax related to other comprehensive income	24	(159)	(134)
Other comprehensive income after tax		726	611
Total comprehensive income for the year		**10 951**	**11 076**
Net profit/(loss) per an ordinary share (UAH)	**25**	**83,81**	**85,78**

Authorized for issue and signed by:

Chairman of the Board /S. Korchynska /

Chief Accountant / N. Derkachenko /

Statement of Cash Flows for 2019 (direct approach)

(in UAH thousand)

	(Note)	2019	2018
Cash flows from operating activities			
Interest received		111 501	214 498
Interest paid		(54 920)	(50 832)
Fee and commission income		10 197	13 398
Fee and commission expenses		(2 044)	(1 714)
Financial derivative instruments operating result, that are recognized at fair value through profit or loss		20 950	(40 194)
Gains from foreign exchange transactions		19 404	10 087
Other operating income		381	19
Staff costs paid		(25 442)	(24 496)
Administrative and other operating expenses paid		(98 456)	(112 398)
Income tax paid		-	(19 820)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**(18 429)**	**(11 452)**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		(40 060)	179 000
Net (increase)/decrease in loans and advances to customers		105 359	(71 242)
Net (increase)/decrease in other financial assets		-	263
Net (increase)/decrease in other assets		(5)	1
Net increase/(decrease) in due to banks		287 466	(171 278)
Net increase/(decrease) in due to customers		(191 426)	(264 681)
Net increase /(decrease) in other financial liabilities		(16 397)	12 675
Net cash flows from/(used in) operating activities		**126 508**	**(326 714)**
Cash flows from investment activities:			
Purchase of securities at FVTOCI		(12 667 164)	(13 098 242)
Proceeds on disposal of securities at FVTOCI		12 710 876	13 402 293
Purchase of securities at amortized cost		(11 456 000)	(14 315 000)
Proceeds on redemption of securities at amortized cost		11 313 000	14 260 000
Acquisition of fixed assets		(1 371)	(296)
Acquisition of intangible assets		(34)	(314)
Net cash flows from/(used in) investing activities		**(100 693)**	**248 441**
Net cash flows from/(used in) financing activities		**-**	**-**
Effect of changes in official foreign exchange rate of the National Bank of Ukraine on cash and cash equivalents		**(8 159)**	**(1 831)**
Net increase /(decrease) in cash and cash equivalent		**17 656**	**(80 104)**
Cash and cash equivalents, at the beginning of the year	6	**70 551**	**150 655**
Cash and cash equivalents, at the end of the year	6	**88 207**	**70 551**

Authorized for issue and signed by:

Chairman of the Board _____ **/S. Korchynska /**

Chief Accountant _____ **/ N. Derkachenko /**

Statement of Changes in Equity for 2019

(in UAH thousand)

	Share capital	Reserve fund	Revaluation reserve	Retained earnings	Total
Balance as at 31 December 2017	**208 498**	**4 562**	**(2 283)**	**100 363**	**311 140**
IFRS 9 adoption effect				(3)	(3)
Increase in nominal value of shares	91 622	-	-	(91 622)	-
Distribution of previous year's profit	-	5015	-	(5 015)	-
Total comprehensive income	-	-	611	10 465	11 076
Balance as at 31 December 2018	**300 120**	**9 577**	**(1 672)**	**14 188**	**322 213**
Increase in nominal value of shares	-	-	-	-	-
Distribution of previous year's profit	-	523	-	(523)	-
Total comprehensive income	-	-	726	10 225	10 951
Balance as at 31 December 2019	**300 120**	**10 100**	**(946)**	**23 890**	**333 164**

Authorized for issue and signed by:

Chairman of the Board _____ **/S. Korchynska /**

Chief Accountant _____ **/ N. Derkachenko /**

Note 1. Corporate information

The financial statements have been prepared in accordance with International Financial Reporting Standards based on operating results of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD". The reporting year is 2019.

PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" (hereinafter "the Bank") was registered in the State Register of Banks of Ukraine on 5 July 2013 under the registration No.346. The Bank is a resident of Ukraine, it is located at: 04116, Kyiv, 3 Sholudenko Street.

The Bank is a member of the Individual Deposit Guarantee Fund, a self-regulatory organization of professional participants of the securities market: the Association "Ukrainian Stock Traders", UkrSWIFT.

The Bank has correspondent banking relationships with the largest banks of Ukraine and settles accounts through leading international banks in all major currencies of the world by means of S.W.I.F.T. international payments. Since December 2013, the Bank has been cooperating with LLC "UKRAINIAN CREDIT HISTORY BUREAU" regarding data transfer on borrowers' credit histories.

In 2014 Westal Holdings Ltd. (location: Arch. Makarios III Avenue, 140, Raptopoulos Building, 3rd floor, office 301, 3021 Limassol, Cyprus) became the Shareholder of the Bank with a substantial holding in it. As at 1 January 2020, Westal Holdings Ltd. Directly holds 100,00% of the Bank's share capital.

The following legal entities and individuals are indirect substantial share interest owners of the Bank:

- ICU Holdings Limited (location: Trident Chemberz, P.O. Box 146, Road Town, Tortola, British Virgin Islands), which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
- Naremius Holding Ltd (location: Tortola Pier Park, 2, floor 2, Vikgem Key 1, Road Town, Tortola, British Virgin Islands) indirectly owing 44,993% of shares in the Bank through ICU Holdings Limited, which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
- Filtesa Holdings Ltd (location: Tortola Pier Park, 2, floor 2, Vikgem Key 1, Road Town, Tortola, British Virgin Islands) indirectly owing 45,011% of shares in the Bank through ICU Holdings Limited, which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd

A group of individuals wedded by common economic interests, namely :

- individual Kostiantyn Stetsenko indirectly owing 44,993% of shares in the Bank through 100% stockholding of Naremius Holdings Ltd, through ICU Holdings Limited, which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
- individual Makar Pasenyuk indirectly owing 45,011% of shares in the Bank through 100% stockholding of Filtesa Holdings Ltd, through ICU Holdings Limited, which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd.

The Management of the Bank isn't a shareholder of the Bank.

On 21/02/2020, an independent rating agency "Credit-Rating" reaffirmed the Bank's credit rating at uaAAA level; a forecast is "stable". A rating report can be found by reference https://avgd.ua/wp-content/uploads/CR_Avangard_ua_210220.pdf

The Bank operates as a multipurpose bank, whose activities are aimed at a comprehensive customer servicing and providing of high-quality services by offering a wide range of banking services and products, focusing its core business on the exchange, monetary and stock markets, conducting operations both by own resources and at the customers' expense. The bank is among top 5 largest government securities traders.

Note 1. Corporate information (continued)

In 2019, the Bank confirmed the compliance of its procedures with the requirements of international standards ISO 9001 quality management system and the ISO 27001 informatio security management system. The Bank plans to build a system for managing the continuity of activities in accordance with ISO 22301 plans by the end of 2021. In 2019-2021 the Bank w implement anti-corruption procedures in accordance with international standard ISO 37001.

The bank has no branches and separate structural divisions. The services are rendered to customers at the Head Office.

As at the end of the year, the Bank's customer base is formed by legal entities-businesses (157 customers), non-bank financial institutions (28 customers), private customers (89 customers) and individual entrepreneurs (6 customers). The bank maintains 705 accounts and serves 28 customers.

Strategic goal

The Bank was established according to a special concept focused on the use of a solid groundin in its business segment with maximum operating efficiency by means of price-related competition and high-tech solutions. At this stage the principal directions of the Bank's activities are securities trading, active participation in the interbank loans market, "Forex" market transactions.

The Bank aims to acquire the status of government bonds primary dealer from the Ministry of Finance of Ukraine.

The strategic development plan of JSC "BANK AVANGARD" is revised and adjusted in the light c changes in the Ukrainian economy and the business environment in the banking market. The Bank plans to expand the range of clients interested in treasury bank services, to enhance cooperatio with Ukrainian counterparties regarding settlement and blank limits.

In 2020, due to changes in the market situation, the Bank plans to hold the government bonds portfolio in the amount of 500 million UAH. The remaining assets will consist of due from other bank and short-term loans granted to reliable borrowers. At the same time, 85% of the Bank's assets are placed for up to 30 days, and at least 85% of the assets are highly liquid, as they consist o interbank loans, domestic government bonds and cash on correspondent accounts with the most reliable Ukrainian and foreign banks. At least 90% of the due to customers are legal entities funds. Such assets structure will be maintained until other decisions made regarding th introduction of new products in the coming years. In 2020-2022, the Bank plans to maintain the same structure and quality of the Bank's assets as in previous periods.

In order to attract customers and promote the Bank's services, it is planned to improve all sale channels, including the improvement of the Bank's website and other information(analytical reports, reviews, legal opinions and recommendations to clients, etc.), mechanisms for attractin new customers to the Bank and optimization of operating procedures. They must meet the recent requirements regarding the speed and ease of transactions and the reliability of payments.

Types of banking activities

The Bank performs banking operations in the money and foreign exchange markets in accordance with the Banking License No. 269 dated 5 July 2013.

As at the reporting date, the Bank has the License of the State Commission for Securities and Stoc Market for conducting professional activities in the securities market as a dealer.

Note 1. Corporate information (continued)

The Bank's activities are based on the principles of reliability, transparency, well-balanced financial performance, compliance with requirements and best practices of banking activities in the following areas:

Treasury operations: operations in the monetary market, transactions in the foreign exchange market, securities transactions, relationships with professional financial market participants - banks, insurance companies, financial intermediaries of capital markets. Deposit attracting transactions from the Bank's customers are considered as transactions in the monetary market, since they represent the main source of the Bank's funding. In order to provide such funding the following measures have been organized: customer servicing, document management associated with all types of transactions and operations, payment and message processing in the "Client-Bank" system, opening and maintaining of current accounts of customers and correspondent banks, including transfer of funds using payment instruments and crediting of funds to accounts; management of customers' (both resident and non-resident) accounts in foreign currencies and non-resident customers' accounts in the currency of Ukraine; management of correspondent accounts of banks (resident) in foreign currencies; opening of correspondent accounts in the authorized banks of Ukraine in foreign currencies and transactions with them.

In 2019, the National Bank of Ukraine has applied to the Bank no restrictions to limit activities performed by the Bank according to permits and licenses granted; there has been also no restrictions regarding the ownership of assets.

No decisions were made during the reporting year by the Bank's Management on the merger, consolidation, disintegration, separation or transformation of the Bank or on the termination of certain activities of the Bank.

There were no bankruptcy proceedings or arbitrations on the Bank's resolution; no decisions were made on the Bank's termination or bankruptcy by the highest governing body of the Bank or the court. No borrowings or loans exceeding 25% of the Bank's total assets were received or provided.

Performance indicators in 2019

As at 31 December 2019, the Bank's assets amounted to UAH 1 024 532 (as at 31 December 2018 – UAH 934 037 thousand). The Bank assets quality is good. The Bank's assets consist mostly of highly liquid assets, that represented by government bonds and NBU deposit certificates. Funds on correspondent accounts are located in resident banks.

As at 31 December 2019, the Bank's liabilities amounted to UAH 691 368 thousand (2018: UAH 611 824 thousand). The resource base is formed by customer assets, including short-term funds of legal entities and individuals. As at 31 December 2019, the portfolio of customer deposits amounted to UAH 394 670 thousand (2018: UAH 586 826 thousand).

As at 31 December 2019, the Bank's equity amounted to UAH 333 164 thousand (2018: UAH 322 213 thousand). The main component of equity is the Bank's share capital.

As at 31 December 2019, the Bank's regulatory capital amounted to UAH 326 897 thousand, including tier I capital in the amount of UAH 309 073 thousands and tier II capital in the amount of UAH 17 824 thousand.

During 2019, the Bank adhered to the economic standards of the National Bank of Ukraine, which as at 31 December 2019 had the following indicators:

	Characteristic value	As at 31 December 2019	As at 31 December 2018
regulatory capital ratio (N1)	UAH 200 000 ths.	UAH 326 897 ths.	UAH 322 467 ths.
regulatory capital adequacy ratio (N2)	Not less than 10%	237,28%	60,38%
short-term liquidity ratio (N6)	Not less than 60%	97,53%	115,65%

Note 1. Corporate information (continued)

In order to monitor banks' liquidity, the National Bank has introduced the following liquidity ratios: short-term liquidity (H6) and liquidity coverage ratio (LCR), for all currencies (LCRBB) and for foreign currency (LCRIB).

Liquidity Coverage Ratio (LCR) is a liquidity ratio that sets the minimum level of liquidity required to cover a net expected cash outflow for 30 calendar days, taking into account the stress scenario (hereinafter referred to as net expected cash outflow).

The Bank calculates its Liquidity Coverage Ratio (LCR) daily as the ratio of high quality liquid assets to the expected net cash outflow.

As of 01/01/2020, Bank's LCR is compliant with a statutory value of 100%:

- for all currencies (LCRBB) - 353.4075%

- for foreign currency (LCRIB) - 189,1902%

Following the results of 2019, the Bank's activities are income-generating, the Bank received net profit amounting to UAH 10 225 thousand.

Corporate governance

The Bank's supreme governing body is the General Meeting of the Shareholders. In the periods between the General Meeting of the Shareholders, the Supervisory Board of the Bank protects the Shareholders' rights, as well as controls and regulates within its competence the activities of the Board of Directors.

The exclusive competence of the Supervisory Board includes the following: approving of the Provisions and other internal documents of the Bank, which regulate issues related to the Bank's activities, approval of which is within the jurisdiction of the Supervisory Board; decision-making in respect of holding of the General Meeting of the Shareholders, approving the agenda of the Meeting, electing a registration commission and deciding on the date of the Meeting; decision-making on repurchasing and placing by the Bank of other securities other than shares; approving of the market value of property in cases stipulated by law; electing and terminating of powers of the Chairman and members of the Board of Directors, monitoring the activities of the Board; decision-making on removal of the Chairman of the Board from his/her powers and electing a person temporarily exercising the powers of the Chairman of the Board; electing of an auditor; creating of the Internal Audit Department and approval of the respective Provisions; appointing and dismissal of the Head of the Internal Audit Department; determining of the external auditor and the respective contractual terms; establishing audit procedures and controls over financial and economic activities of the Bank; decision-making on covering losses; addressing issues of the Bank's participation in corporations, establishment, reorganization and liquidation of other legal entities, branches and representative offices of the Bank, approval of their statutes and regulations; determining the probability of recognition of the Bank's insolvency caused by assumption or implementation of liabilities, including payment of dividends or redemption of shares; decision-making on the election of the Bank's property appraiser; decision-making on the election (substitution) of a registrar of inscribed stock holders of the Bank or a depository of securities and approving of respective contractual terms, remuneration determining; as well as other issues specified by applicable law or delegated to the Supervisory Board by the General Meeting of the Shareholders.

Note 1. Corporate information (continued)

The executive body of the Bank is the Management Board, which manages the daily operations of the Bank, is responsible for formation of funds required for the Bank's statutory activities and efficiency of its operations in accordance with the principles and procedures established by the Bank's Charter, resolutions of the General Meeting of the Shareholders and the Supervisory Board. The Management Board is accountable to the General Meeting of the Shareholders and the Supervisory Board of the Bank and provides for the implementation of their decisions. The Management Board decides on the managing of the Bank's structural divisions, monitors the Bank's compliance with the current legislation of Ukraine; organizes deposit operations for the Bank's cash assets and valuables, accounting and reporting transactions, internal controls and other issues regarding the Bank's activities; reviews and approves the internal documents at the Bank within its competence, decides on the establishment, management and liquidation of the Bank's structural divisions other than those which fall within the exclusive competence of the Supervisory Board, and exercises other powers stipulated by the current legislation of Ukraine.

The Bank's organizational structure is based on the main directions, each of them being dependent to one of the members of the Management Board.

As at the year-end, the number of employees at the Bank is 23 persons.

Risk management system

The Bank's risk management system is aimed at ensuring the implementation of business goals defined under the Bank's development strategy and enhancing its value, optimizing the potential opportunities and risks ratio, capital stock and growth rates of the Bank.

The main instrument in implementation of these objectives is a comprehensive risk management system established at the Bank that provides action coordination across all the departments within a single strategy regarding risk management, approved by the Supervisory Board of the Bank. The formation of the integrated system is aimed at a maximum concentration of the Bank's risk management functions, ongoing analysis of the situation and environment where risks arise and executive decision-making regarding the influence over these risks and/or the level of the Bank's exposure to them.

The Bank's risk management system is based on the principles defined by the regulatory authorities and recommendations of the Basel Committee.

The distribution of functions and powers in the risk management covers all organizational levels and divisions of the Bank. The basic structure of the Bank's risk management stipulates for the involvement of the Supervisory Board, the Management Board, special-purpose committees, the Bank's risk management services and structural divisions in the risk management process.

The general supervision over the implementation of the Bank's risk management is carried out by the Bank's Supervisory Board; the implementation of the risk management system is carried out by the Management Board.

The Asset and Liability Management Committee determines the optimal balance sheet structure, plans the financial performance indices and monitors their implementation, considers the cost of funding sources, controls the liquidity risk, interest rate and foreign currency risks.

The Credit Committee manages credit and investment activities and monitors the credit risks associated with individual customers and credit-investment portfolio as a whole.

The Tariff Committee regulates commission income, analyzes the current tariff rate competitiveness.

Note 1. Corporate information (continued)

The Financial Monitoring Committee ensures the implementation of the Bank's policy on anti-money laundering risk management.

The Risk Management Division performs a quantitative and qualitative assessment of the risks to which the Bank is exposed or which may subsequently arise in its activities, monitors the status and size of the risks.

The bank provides for quantitative and qualitative assessment of risks faced by the Bank, or those which may arise as a result of future activities, monitors the status and amount of risks, namely:

- credit risk;
- liquidity risk;
- interest rate risk;
- market risk;
- foreign currency risk;
- operational risks;
- compliance-risk;
- reputation risk;
- legal risk;
- strategic risk.

The Internal Audit Division evaluates the sufficiency of the risk management systems to the Bank's requirements.

The Bank's structural divisions perform the risk operational management associated with the activities according to the established risk tolerance levels and limits, and are responsible for the risk acceptance results. The Bank improves the risk management system on a regular basis and provides timely updating of the interbank statutory framework in case of changes in legal, regulatory or statutory requirements, the Bank's organizational structure and risk tolerance.

Note 2. The economic environment, in which the Bank operates

The banking sector remains in good financial condition. Banks are highly profitable, the return on equity is at a record high. This year impairment provision expenses expected to be the lowest in more than a decade. The low cost of credit risk will persist in the coming years, as macroeconomic conditions are favorable, real sector debt load is acceptable and household income is rising rapidly.

A stress test conducted in 2019 showed that several banks, including two state-owned banks, still have significant issues. They may require significant amounts of capital under the unfavorable macroeconomic scenario. Their financial sustainability is low and they are vulnerable to possible crises. State-owned banks remain in the focus of NBU's attention, as they are important for the banking system. The NBU expects rapid decisions of independent supervisory boards aimed at clearing balances from non-performing loans, changing business models, optimizing operating expenses.

The key medium-term challenge for the banking sector will be the expected decline in profitability. Banks' operating income growth is slowing after an extremely high growth in 2018. The NBU expects further decrease in interest margin and spread and decrease in the growth of commission income. Therefore, optimization and control of transaction costs will become key for Ukrainian banks.

Note 2. The economic environment, in which the Bank operates (continued)

In December, the NBU continued to soften its monetary policy, accelerating the reduction of the discount rate (by 200 bp - to 13.5%). Accordingly, the cost of the hryvnia resources continued to decline. So, the UIIR was declining as well, and during the year it was near the lower limit in the NBU permanent access instruments rate corridor. At the same time, the yield of hryvnia government bonds continued to decline for all terms of placement due to the considerable demand for them and limited supply.

The interest of non-residents to hryvnia government bonds is explained by the preservation of macro-financial stability and expectations of a decrease in the interest rate in the future. In November, hryvnia interest rates for bank customers continued to decline, responding to a general trend towards a decrease in the cost of resources on the market. However, household interest rates continued to show weaker correlation to other market rates. In December, the foreign exchange market maintained the current year's tendency to strengthen the hryvnia due to the excess supply of foreign currency over a long period.

The main sources of foreign currency in December were traditional export-oriented industries (including agro-industrial complex, metallurgy and mining), portfolio investment and a significant supply of cash. Considering the significant excess of the supply of currency over the demand and the fact that the strengthening of the hryvnia is fundamental and not situational, the NBU decided to increase in December the daily planned volume of foreign currency purchases to replenish international reserves (from $ 30 million to $ 50 million).

In December, the NBU's surplus in the foreign exchange market amounted to $ 2.9 billion ($ 7.9 billion since the beginning of the year). In addition, in view of the constant favorable situation on the foreign exchange market, the NBU increased in December the e-limits for some funds transfer operations.

The macroeconomic situation contributes to the stability of the financial system. A key achievement of 2019 is that the inflation rate entered into the NBU target range. The NBU's policy in the future will be aimed at keeping the consumer price growth rate at the target level. This will allow banks to price their liabilities and assets more efficiently, and thus generally help to restore long-term lending to businesses and individuals.

The profitability of the real sector has stabilized and the debt load as a whole is at an acceptable level. The number of companies planning to attract bank financing is increasing. Lowering interest rates will stimulate to restore lending. There are two key risks that could impair the solvency of the sector in the medium term. The first is the increase in labor costs, which are growing faster than the incomes of enterprises. The second is the fall in prices for individual export of goods. The worst situation is for metallurgical enterprises: the industry is operating at loss in the first half of the year.

To recover mortgage lending, there is a need to address some of the fundamental problems of the primary real estate market. It is highly opaque and investor households lack effective mechanisms to protect their rights. As this market is socially important, its regulation should be as rigid as that of the banking sector. Full transparency of the ownership structures of developers should be ensured and they should be responsible for the delayed completion of construction work. Without streamlining the primary residential real estate market, mortgage recovery will be extremely slow, despite the expected reduction in interest rates.

Consumer lending is growing rapidly. Banks are reducing credit application approval standards. Some financial institutions are very actively expanding their presence in this segment and are trying to aggressively increase their market share. According to the NBU, banks do not conservatively assess the risks of unsecured consumer loans. The estimated default probabilities and losses in the event of default environment are low even in the current macroeconomic situation.

Note 2. The economic environment, in which the Bank operates (continued)

Although the penetration rate of such loans is currently less than 5% of GDP, their growth rates are extremely high. In the first nine months of 2019, the ratio of new consumer loans to private consumption reached almost 9%. Lending becomes a significant factor in domestic consumption. To prevent accumulation of systemic risks, the NBU plans to introduce increased risk weights for such loans from the beginning of 2021. The numerical values of the risk weights will be reported shortly.

From the beginning of 2020, banks should form the first part of the capital conservation buffer at 0.625% and bring this figure to 2.5% within the next three years. Systemically important banks should form a systemic buffer by the end of next year. In part, this will alleviate the NBU's concern about the financial soundness of state-owned banks and reduce capital risks for the sector as a whole.

The dollarization of the financial system remains high. In the macroprudential policy strategy, the NBU acknowledged that this was one of the systemic risks of the Ukrainian economy. In December, two important decisions were made to de-dollarize bank balances. The reserve requirement ratio for foreign currency accounts will be increased to 10% and for UAH deposits balances will be reduced to zero. The approaches to credit risk assessment of the government bonds were also changed. They will no longer be considered risk-free and will be assessed under the general rules. In fact, banks will have to hold capital for such investments.

The NBU continues to update its approaches to banking regulation to strengthen the financial sustainability of the sector. Rules for the calculation of the new NSFR long-term liquidity ratio and minimum capital requirements to cover operating risks will be approved shortly. The plans for 2020 are to harmonize the regulatory capital structure with the Eurodirectives and to develop a regulation for capital requirements to cover market risks. The implementation of all the new rules will not be quick, but will require a long transition period of several years. This will allow banks to plan their capital requirements and adjust their dividend policy accordingly.

The impact from previous discounts and the dynamics of the interest rates have also been driven by environmental factors. These include banks competition for customers and further growth in household demand for loans.

In view of the above, the Bank's management concludes that the uncertainty of the economic environment in which the Bank operates is increasing, leading to a shortening of the planning and forecasting period of the key performance indicators. On the horizon of up to 3 months, the Bank sees no reason to substantially change the main factors of its activity.

Note 3. Basis of presentation

The Bank's annual financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on a historical cost basis, except for the following items: available-for-sale securities in the Bank portfolio at fair value, loans and advances to customers, due from other banks, due to customers, held-to-maturity securities in the Bank portfolio at amortized cost.

The financial statements are presented in UAH, and all amounts are rounded to thousands, except where otherwise indicated. The Bank's functional currency is UAH.

The Bank's accounting policy for the reporting period corresponds in all major aspects to the Bank's accounting policy for the previous period.

The Bank's accounting records and financial statements are based on the following principles:

- full coverage - all banking transactions are to be registered on accounts without any exceptions. The financial statements must contain all information about actual and potential effects of the Bank's operations that may affect the decisions made according to it;
- autonomy - all asset and liability accounts of are measured separately and disclosed in detail;
- continuity - the Bank's assets are valued on the assumption that the Bank is a going concern and remains active in the boundless future. If the Bank plans to scale down its activities, such intention shall be recorded in the financial statements;
- consistency - the Bank's permanent (year on year) application of accounting policies selected. Changes in the accounting method are possible only in cases stipulated by international standards and national regulations of accounting and require additional justification and disclosures in the financial statements.
- Continuity - Assets and liabilities are assessed based on the assumption that the Bank is continuously operating and will remain operational for the foreseeable future. If the Bank plans to downsize, it should be reflected in the financial statements
- substance over form - is an accounting concept which requires transactions to be accounted for according to their substance and not merely their legal form.
- accrual and correspondence of income and expenses – in order to determine the reporting period results, the income for the reporting period shall be reconciled with the expenses incurred to obtain such income. Income and expenses are disclosed in the accounting records and financial statements when incurred regardless of the date of receipt or payment of cash assets;
- Single Monetary Measurement - Measurements and summaries of all the Bank's operations in its financial statements are carried out in a single monetary unit.
- There are no plans regarding termination of the Bank's activities. These financial statements have been prepared on the assumption of the Bank's ability to continue as a going concern.

Note 4. Summary of significant accounting policies

Note 4.1. Core activities

The Bank operates under the legislation of Ukraine, including the Laws of Ukraine "On Banks and Banking Activity", "On Accounting and Financial Reporting in Ukraine", "On Payment Systems and Money Transfer in Ukraine", the Tax Code of Ukraine. The Bank maintains accounting records in accordance with the statutory requirements for accounting and reporting in the banks of Ukraine set by the rules of the National Bank of Ukraine in accordance with International Accounting Standards, as well as the Bank's internal documents, the Charter, Regulations on the Supervisory Board of the Bank, Regulations on the Management Board, and other transaction regulations.

During 2019 the Bank's activities were focused on expanding the customer base, improving key business processes and customer service technologies, updating banking services in response to changes occurring in the country and society.

The Bank aims to maximize profits from treasury operations and fully meet the needs of customers in qualitative banking servicing on the monetary, foreign exchange and stock markets. The Bank's activities are based on the principles of reliability, transparency, well-balanced financial performance, compliance with banking regulations.

The nature of operations and principal activities of the Bank are set out in the Corporate information.

Note 4.2. Basis of preparation

Key assessment indicators. Financial assets and liabilities are stated at fair value, historical cost or amortized cost depending on their classification.

Fair value – is the amount on which an asset can be exchanged, or a liability settled during the implementation of an agreement on general conditions between knowledgeable unrelated parties acting on a voluntary basis. Fair value is the current bid price for financial assets and financial liabilities for the bid listed on the active market. A financial instrument is considered so that is quoted in an active market, if the quotes for this financial instrument are readily and regularly available on the stock exchange or other institution and those prices represent actual and regularly occurring market transactions on general terms.

To determine the fair value of certain financial instruments for which there is no information about market prices from external sources, the valuation techniques are used such as discounted cash flow, valuation models that are based on data about the latest agreement made between unrelated parties, or analysis of financial information on investment objects. The use of valuation techniques may require assumptions not supported by observable market data. The information in the financial statements is disclosed in cases when changing of any such assumptions by possible alternative may result in significantly different profit, income, total assets or total liabilities.

Historical cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the acquisition date, which includes transaction costs.

Historical cost valuation is applied to equity instruments that do not have a quoted market prices in an active market, and fair value of which cannot be reliably measured. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if an entity had not acquired, issued or disposed of a financial instrument. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

In addition to assessment methods in recognition of assets, the Bank uses various methods to bring the value of financial instruments and assets to fair value through the accrual of income and expenses, including using the effective interest rate method, formation of special-purpose bank reserves, revaluation to fair value, depreciation of non-current assets, etc.

Note 4. Summary of significant accounting policies (continued)

Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus interest accrued, plus (or minus) cumulative amortization of any difference between that initial amount and the maturity amount using effective interest method, and minus any reduction for impairment for the financial assets.

Effective interest rate method is the method of calculating the amortized cost of a financial asset or a financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of a financial instrument or, where appropriate, a shorter period to the net balance sheet value of a financial asset or a financial liability.

The accounting policies of the Bank in all significant respects consistent with the requirements of IFRS and the requirements of regulatory legal acts of the National Bank of Ukraine.

Note 4.3. Initial recognition of financial instruments

A financial asset or a financial liability is recognized when the Bank becomes a party to the agreement on this financial instrument. At initial recognition financial assets and financial liabilities are measured:

- at fair value - trading securities;
- at fair value plus transaction costs through profit or loss directly attributable to the acquisition or issue of a financial asset or financial liability - derivatives and all other financial instruments.

The fair value of a financial instrument at initial recognition is normally the actual transaction price. Gains or losses at initial recognition are recognized only if there is a difference between the fair value and the contractual value proved by other current transactions with the same financial instrument observed in the market, or valuation techniques using only observable inputs as baseline data.
Purchases and sales of financial assets supply of which is carried out within the terms established by the laws or customs of business turnover for the particular market were stated on the transaction date.

All other purchases and sales are recognized on the settlement date, where the change in the fair value of the assumption of obligations between a transaction date and settlement date is not recognized in respect of assets carried at cost or amortized cost.

Note 4.3. Initial recognition of financial instruments

A financial asset or a financial liability is recognized when the Bank becomes a party to the agreement on this financial instrument. At initial recognition financial assets and financial liabilities are measured:

- at fair value - trading securities;
- at fair value plus transaction costs through profit or loss directly attributable to the acquisition or issue of a financial asset or financial liability - derivatives and all other financial instruments. The fair value of a financial instrument at initial recognition is normally the actual transaction price. Gains or losses at initial recognition are recognized only if there is a difference between the fair value and the contractual value proved by other current transactions with the same financial instrument observed in the market, or valuation techniques using only observable inputs as baseline data.

Purchases and sales of financial assets supply of which is carried out within the terms established by the laws or customs of business turnover for the particular market were stated on the transaction date. All other purchases and sales are recognized on the settlement date, where the change in the fair value of the assumption of obligations between a transaction date and settlement date is not recognized in respect of assets carried at cost or amortized cost.

Note 4. Summary of significant accounting policies (continued)

Note 4.3.1. Classification and evaluation

Financial assets

Classification of financial instruments of the Bank is based on a combination of the business model of financial tool management and characteristics of cash flows.

Types of business models of the Bank:

1) Designed to collect cash flows under the agreements that arise from a financial asset (Hold t collect);

2) Designed to collect cash flows under the agreements that arise from a financial asset and from their sale (Hold to collect and sell);

3) other models (the remaining one, that is there is no definition of the model at fair value).

The Bank, after initial recognition, evaluates a debt financial asset based on a business mode and characteristics of the cash flows provided for by the agreement, for:

1) the depreciated cost (DC);

2) the fair value with the price change recognition in other comprehensive income (FVOCI);

3) the fair value with the price change recognition through profit/loss (FVPL).

The Bank assesses the debt financial asset at depreciated cost and records it in its books of account, provided that the following conditions are fulfilled simultaneously:

1) the financial asset is withheld within the framework of a business model, which is aimed o withholding the financial assets for cash flows provided for by the agreement;

2) the financial asset agreement provides for a receipt of cash flows at the specified dates, which are exclusively payments for the principal amount and interest on the outstanding part of th principal amount.

The Bank assesses the debt financial asset at the fair value with the price change recognition in other comprehensive income and records it in its books of account, provided that the following conditions are fulfilled simultaneously:

1) the financial asset is withheld within the framework of a business model, the purpose of which is achieved both through a receipt of the cash flows provided by the agreement and through the sale of financial assets;

2) the financial asset agreement provides for a receipt of cash flows at the specified dates, which are exclusively payments for the principal amount and interest on the outstanding part of the principal amount.

Note 4. Summary of significant accounting policies (continued)

The Bank assesses all other debt financial assets at the fair value with the price change recognition through profit/loss and records it in its books of account, if such financial assets do not meet the criteria for their subsequent assessment at the depreciated cost or at fair value with the price change recognition through other comprehensive income.

At the initial recognition of a financial asset, the Bank may, at its discretion, classify it, without the right to further reclassification, as being recognized at fair value with the price change recognition through profit/loss, if such classification eliminates or significantly reduces the inconsistency of valuation of assets or liabilities, or recognition of profits and losses associated with them.

Financial liabilities

After the initial recognition, the Bank assesses all financial liabilities at depreciated cost and records them in its books of account, except for:

1) financial liabilities recognized at fair value with the price change recognition through profit/loss (financial liabilities intended for trading, including derivatives) or those that the Bank determined by its own decision to measure through the FVPL in order to reduce the disparities in the accounting);

2) financial liabilities that arise when transfer of a financial asset does not comply with the terms of termination of recognition or when the participation continuation principle is applied;

3) financial guarantee, bank guarantee, surety agreements;

4) loan commitments at a rate below the market one;

Note 4.4. Impairment of financial assets

The Bank recognizes the fair value reserve for the expected credit losses for:

• financial assets assessed at the depreciated cost;

• financial assets assessed at the fair value with the price change recognition through

other comprehensive income;

• loan commitments and financial guarantees;

• financial receivables.

The expected losses of the Bank in regard to the reserve formation mean the risk of loss incurred as a result of one or more circumstances:

- failure to fulfill (improper fulfillment) of obligations by the Debtor of the Bank under the active transactions or as a result of failure to fulfill obligations by the Debtor, whose proper fulfillment of obligations is ensured by the obligations assumed by the Bank;

- impairment (decrease in value) of the Bank's financial tools;

Note 4. Summary of significant accounting policies (continued)

- availability and recognition by the Bank of signs indicating a high credit risk and/or default of the Debtor;

- increase in the liabilities and/or expenses of the Bank in comparison with those previously reflected

in the accounting.

When assessing financial tools, the Bank applies the model of "Expected Credit Losses" (ECL). which is a recognition of impairment both on financial assets and liabilities, beginning from the date of initial recognition, and provides for 3 stages of impairment:

Stage 1 – financial tools without considerable credit risk growth (risk assessment/creation of reserves is carried out within 12 months);

Stage 2 – financial tools with considerable credit risk growth (risk assessment/creation of reserves is carried out for the entire duration of the agreement);

Stage 3 – impaired financial tools (risk assessment/creation of reserves is carried out for the entire duration of the agreement).

Reserves are divided into:

- the fair value reserves for financial tools of stage 1 of impairment (expected credit losses within 12 months);

- the fair value reserves for financial tools of stage 2 or 3 of impairment (expected credit losses within the entire validity of the financial asset).

The expected credit losses (or fair value reserves) are determined as the weighted average value of credit losses, determined using the appropriate probabilities of occurrence of default event as weighting factors.

If there are signs of a significant increase in the credit risk, the Bank calculates the expected credit losses from impairment of financial assets on individual (for material financial tools) or portfolio (for non-material financial tools) basis using the scenario approach.

The Bank calculates the amount of expected credit losses from impairment of financial tools for each scenario on individual basis at the reporting date as an amount in excess of the gross carrying amount of the financial asset over the current value of the estimated future cash flows for that asset and from enforcement of the security.

In the short-term transactions with other Debtors and/or active transactions, under which the amount of tranches and the term of their repayment is unknown, the amount of expected credit losses is determined as the product of the probability of default, the gross carrying amount of the financial asset and the level of losses in the event of default.

Note 4.5. Derecognition of financial instruments

Financial assets. A financial asset (or, where applicable a part of a financial asset or group of similar financial assets) is derecognized when the assets are redeemed or the rights to receive cash flows from the assets have otherwise expired, or the Bank has transferred substantially all the risks and rewards of ownership or has not transferred and retained basically all the risks and rewards of ownership but has ceased to exercise control. Control is retained if a counterparty does not have the practical ability to sell the asset to an unrelated third party without additional restrictions on resale.

Note 4. Summary of significant accounting policies (continued)

Financial liabilities. A financial liability is derecognized when it is discharged or canceled or expires. When one existing financial liability is replaced by another to the same lender on substantially different terms, or when the terms of existing liabilities change, the initial liability is withdrawn from the account with subsequent recognition of a new financial instrument, and the difference between the respective carrying amounts is recognized in the statement of comprehensive income.

Note 4.6. Cash and cash equivalents

Cash and cash equivalents. Cash and cash equivalents are assets which can be converted into cash at short notice and which have low risk of change in value. Cash and cash equivalents are unrestricted balances on correspondent accounts with the National Bank of Ukraine and other banks with maturity up to three months, which may be freely converted to the respective amount of cash in a short period of time, as well as deposits and overnight loans at banks, for which interest does not accrued and provisions for depreciation of possible losses under credit transactions are not formed.

Note 4.7. Due from other banks

Due from other banks are short-term deposits and loans, as well as overnight loans and deposits, for which interest is accrued and provisions for depreciation of possible losses under credit transactions are formed.

For the purposes of reporting in "Due from other banks", Bank account balances on correspondent accounts in other banks, on which there is an interest and /or formed provisions for impairment of possible losses on credit operations.

Note 4.8. Loans and advances to customers

Loans and advances to customers represent non-derivative financial assets with fixed or determined payments, which are not quoted (listed) in an active market, except for assets classified as other categories of financial assets.

Loans granted by the Bank are initially recognized at fair value plus related transaction costs. Subsequently, loans are carried out at amortized cost using the effective interest rate method. Loans to customers are recognized net of any allowance for impairment losses. Interest income and impairment losses are recognized in profit and loss. In case of uncertainty regarding the possibility of loans repayment, their value is reduced to the present value of the expected cash flows and interest income is thereafter recorded based on the effective interest rate on this instrument used to measure the impairment loss. In this case, the accrued interest on such instrument is calculated based on the cost of the instrument taking into account the provision for impairment.

Lending commitments. The Bank undertakes credit commitments including financial guarantees. A financial guarantee is an irrevocable undertaking of the Bank to pay a certain amount to the beneficiary of the guarantee within the specified limits of the guarantee if the Bank's customer who has requested the Bank to issue such guarantee has failed to fulfil his obligations towards the beneficiary.

Note 4. Summary of significant accounting policies (continued)

Note 4.9. REPO contracts

The Bank recognizes REPO contracts as granted (received) loans backed by securities and accounts for at amortized cost.

The Bank continues to recognize the securities sold under REPO contracts with prohibition of sale or grant as collateral in the trading portfolio or securities portfolio available-for-sale. If a REPO contract gives a buyer the right to sell securities or pledge them as collateral, the Bank reclassifies such securities into receivables for securities.

Note 4.10. Securities in the Bank portfolio held at fair value through other comprehensive income

During the reporting year, the Bank portfolio of available-for-sale securities comprised treasury bonds, deposit certificates of the National Bank of Ukraine and the bonds of economic entities.

Purchased securities are initially measured and stated at fair value, plus the cost of acquisition of such securities. At each balance sheet date subsequent to initial recognition securities held at fair value through other comprehensive income are stated at fair value.

At each subsequent balance sheet date, all securities acquired by the Bank are measured at their fair value, except for securities that are measured at amortized cost and shares and other non-fixed income securities that are measured at fair value through other comprehensive income whose fair value cannot be determined reliably.

Debt securities recognized by the Bank as bad debts are written off against reserves according to the decision of the Management Board.

During 2019, the Bank carried out transactions under REPO contracts accounted for as credit transactions with the recognition of interest income and continued recognition of available-for-sale securities under REPO transactions.

Note 4.11. Securities in the Bank portfolio carried at amortized cost

Securities in the Bank portfolio carries at amortized cost are initially recognized at fair value with the disclosure of income and expenses related to the acquisition at the discount/premium accounts. At each subsequent reporting date, the securities are measured at amortized cost using the effective interest rate and are subject to review for impairment (as the difference between the asset's carrying amount and the present value of estimated future cash flows).

The Bank does not form provisions for securities issued by the central executive authorities and the National Bank of Ukraine.

Note 4.12. Fixed assets

Fixed assets and other non-current tangible assets are accounted for in accordance with the requirements of the Regulations on financial accounting of fixed assets and intangible assets. The fixed assets are recognized by the Bank at the historical cost. The cost of acquired fixed assets and other non-current tangible assets includes all expenses associated with the acquisition, delivery, installation and putting into operation. Administrative and other expenses not directly related to an acquired asset or its putting into operation were not included to the historical cost of an asset. Assets' current repair and maintenance expenses expensed as incurred and did not affect the carrying amount of non-current assets.

According to the Bank's accounting policies, non-current tangible assets with historical cost of up to UAH 6000.00 and a useful life exceeding one year were recognized as non-current tangible assets of low-value.

Note 4. Summary of significant accounting policies (continued)

Depreciation of fixed assets and other non-current tangible assets is performed every month. For assets acquired depreciation is calculated from the 1st day of the month following the month of acquisition, and for assets disposed depreciation terminates from the 1st day of the month following the month of disposal.

Depreciation is calculated on a straight-line basis. The residual value of fixed assets is assumed to be zero.

In the estimation of the useful lives of the assets the following criteria were taken into account: prior experience operating with similar assets, current status of assets, asset repairs and maintenance issues, current trends in engineering. During the annual inventory of fixed assets, the Bank replaces the expected economic benefits from the use of fixed assets.

The Bank's accounting policies for 2019 provide for the following useful lives of fixed assets:

- machinery and equipment -5 years;
- furniture and fixtures – 4 years;
- other non-current tangible assets – according to the term of the premises lease agreement.

The acquired non-current tangible assets of low value are depreciated in the first month of the asset's use in the amount of 100% of its value.

Note 4.13. Intangible assets

Intangible assets are measured and accounted for at cost, which comprise the actual cost of acquisition (production) and bringing to a state in which they are suitable for use according to the intended purposes.

Depreciation is calculated monthly using a straight-line method under the norms set according to useful lives of corresponding assets. The useful life of an intangible asset is established by the Bank independently taking into account the following criteria: prior experience operating with similar assets, current trends in software development, performance characteristics.

Finite useful lives of intangible assets are approved by the commission of the Bank, but not more than 10 years. The largest share of intangible assets constitute assets with useful lives of 10 years.

In 2019, during conduction of the annual inventory of intangible assets, the Bank neither changed the expected economic benefits from the use of intangible assets and fixed assets, nor reviewed deadlines of useful lives for commissioned intangible assets.

Note 4.14. Lease

The lease is concluded by a contract which gives the user (the lessee) the right to control the use of the asset (the underlying asset) for a certain period in exchange for compensation.

The Bank assesses the lease as a whole or individual components as a lease, if the asset is identified, the Bank is entitled to receive virtually all economic benefits from the use of the identified asset throughout its useful life, the Bank is given the right to determine how the asset is used in exchange for compensation, the lessor does not have a material right to replace the asset during its useful life.

The Bank uses the practical expedient of not recognizing the right to use the lease assets and liabilities for short-term leases with a term not exceeding 12 months from the date of its first use, as well as for the lease of low value assets. Lease payments under such contracts are recognized as an operating expense over the life of the contract. A lease that contains acquisition opportunities is not a short-term lease.

Note 4. Summary of significant accounting policies (continued)

In other cases, the Bank, as a lessee, recognizes the lease asset (lease obligation) at the effectiv date of the lease. The Bank initially recognizes an asset at right-of-use value, which includes the amount of the initial estimate of the lease liability, the lease payments made on or before th lease date, less the incentive lease received, the initial direct costs incurred by the Bank , costs incurred for dismantling, moving, and bringing the underlying asset to the condition required b the terms and conditions of the lease.

The Bank recognizes the lease liability at the present value of the lease at the present value of th lease payments not paid at that date. The lessee discounts the payment for the right to use the underlying asset for the lease term (lease payments), using the interest rate specified in the lease The tenant applies the NBU discount rate if the rate is not specified in the lease agreement.

The net present value of the lease payments is recognized as a financial liability. The ren payments themselves are divided into principal and interest payments using the effective interes method. If the lease payment includes a VAT amount, the Bank displays the VAT amount in separate account.

The right to use the assets is amortized on a straight-line basis over the lease term. If the amount of the lease payments is expected to change, the obligation is revalued, such adjustment is mad together with a corresponding recalculation of the right to use the assets value.

Note 4.15. Derivative financial instruments

A derivative is a financial instrument or other contract with the following characteristics:

- its value changes in response to the change in a specified interest rate, financia instrument price, commodity price, foreign exchange rate, index of prices or rates, credi rating or credit index, or other variable;
- it requires no initial net investment that is smaller than would be required for other type of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

A derivative instrument is recognized as a financial asset or financial liability on the date c obligation regarding purchase or the sale of a contract subject. Derivative financial instrument include currency swaps, forward transactions, foreign exchange spot transactions and combinations of these instruments.

Derivative financial instruments are recognized at fair value through profit or loss. Derivatives are carried as assets when their fair value is positive or as liabilities when their fair value is negative. The fair value of derivatives that are not sold and not acquired in an active market is determined using valuation techniques.

Note 4.16. Funds raised

Due to other banks are recognized upon the receipt of funds by the Bank. Non-derivative financial liabilities are accounted for at amortized cost.

Due to customers comprise non-derivative financial liabilities to government and corporate customers, individuals, and are accounted for at amortized cost.

The Bank recognizes interest expenses on borrowed funds at least once a month in profit or loss and other comprehensive income (statement of comprehensive income).

Note 4. Summary of significant accounting policies (continued)

Note 4.17. Provisions for liabilities

Provisions for liabilities are determined and recognized in the financial statements when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Note 4.18. Income tax

Current income tax and deferred income tax are determined and recognized in the financial statements separately.

Current income tax and deferred income tax are recognized as expenses or income in the statement of comprehensive income, except for income tax assessed in respect of the revaluation of assets to the fair value which is recorded as the Bank's' capital.

Income tax rate amounts to 18%.

Deferred tax was accrued at the rate of 18% for general transactions and securities trading operations.

Deferred tax assets were recognized in the amount of expenses to be included in taxation of subsequent periods:

- in excess of the residual value of fixed assets and intangible assets in the tax records over the cost in financial accounting.

Deferred tax liabilities were recognized in the amount of income to be included in taxation of subsequent periods:

- in excess of the available-for-sale securities portfolio value in the financial accounting over the purchase cost in tax accounting.

In 2019 the Bank recorded the taxable amount of UAH 12 469 thousand.

Note 4.19. Share capital

The share capital represent liabilities regarding cash contributions paid by the Shareholders the amount of which is determined in the statutory manner.

According to the Laws of Ukraine "On Banks and Banking Activity" and "On Joint Stock Companies" and the Bank's Charter, the decision on equity issue is taken at the General Meeting of the Shareholders.

Note 4.20. Dividends

Dividends represent a portion of the Bank's profit distributed between the Shareholders based on each of their shares to the extent determined by the General Meeting of the Shareholders within a period not later than six months after the end of the reporting year. Bank pays dividends entirely in cash.

Note 4.21. Income and expense recognition

Income and expenses are recognized according to the principles of accrual, correspondence of income and expenses, prudence.

Income and expenses are recognized by the Bank, provided there is a high probability that the Bank will receive economic benefits.

Note 4. Summary of significant accounting policies (continued)

As a result of operating activities the following income and expenses arise at the Bank:

- interest income and expenses;
- fee and commission income and expenses;
- profits (losses) on trading transactions;
- dividend yield;
- cost of formation of special provision;
- income from repayment of assets previously written off;
- other operating income and expenses;
- general administrative expenses;
- income tax.

Interest income and expenses are operating income and expenses obtained (paid) by the Bank for the use of cash, cash equivalents or amounts owed to the Bank (raised by the Bank), amount of which are calculated in proportion to time using the effective interest rate. They include:

- income (expenses) from operations with funds placed in other banks (attracted from other banks);
- income (expense) on loans and deposits granted (received) to legal entities and individuals, and on other financial instruments, including securities;
- income in the form of a discount (premium) amortization.

Interest and related commissions are charged at least once a month, irrespective of the actual frequency of settlements with a counterparty stipulated by an agreement.

Fee and commission income and expenses (hereinafter – "the commissions") - operating income and expenses for provided (received) services, the amount of which is calculated in proportion to the amount of an asset or liability, or is fixed. The commissions for provided (received) services depending on the purpose of evaluation and accounting base of an associated financial instrument are divided into:

- the commissions that are an essential part of income (expenses) of a financial instrument;
- the commissions received (paid) at the time of service provision are recognized as income (expenses);
- the commissions received (paid) after certain actions are recognized as income (loss), after completion of a certain operation.

Fee and commission income (expenses) for services provided continuously (cash management services) were accounted for during the whole contractual period.

Profits (losses) from trading operations – a result (profit or loss) from operations of purchase and sale of various financial instruments. The Bank recognizes profits and losses regarding securities transactions, foreign currency transactions, bullion (banking metals) transactions from:

- sale of financial investments;
- changes in valuation (revaluation) of investments to fair value;
- assets and liabilities revaluation result in foreign currency and banking metals in case of a change of the official UAH rate against foreign currencies (banking metals).

Dividend yield - income generated from the Bank's use of securities with variable income.

Expenses on the special provisions formation are expenses to cover possible losses from the Bank's assets impairment and bad assets write-off.

Income from repayment of assets previously written off are the funds obtained for debt repayment recognized by the Bank as a bad debt.

Employee Benefits Expenses - maintenance costs for the Bank's employees (salaries, social security costs, statutory charges, insurance, surcharges, bonuses, training, etc.).

Note 4. Summary of significant accounting policies (continued)

Depreciation and amortization costs are the systematic distribution of the value of fixed assets and intangible assets that are amortized over their useful life (use).

Other operating income and expenses are income and expenses from transactions not related to investing and financing activities, as well as those not included in the above groups of operating income and expenses, including:

- income (loss) from operating leasing;
- expenses for audit services;
- cash collection expenses;
- forfeit (penalties, fines) received (paid) for banking operations, others.

General administrative expenses are operating expenses incurred to ensure that the Bank will be able to continue as a going concern. These include staff costs (salaries, social security costs, mandatory charges, insurance, additional payments, bonuses, training, etc.); amortization of intangible assets; costs of maintenance and operation of fixed and intangible assets (repairs, insurance); other operating expenses (utilities, security, etc.); fees for professional services (legal, etc.); communication costs (postage, telephone, etc.); payment of taxes and other mandatory payments, other than income tax, and other expenses aimed at maintenance and management of the Bank.

Income tax – the Bank's operating expenses related to tax payment in accordance with the current legislation of Ukraine and the requirements of international accounting standards and national regulations (standards) of accounting regarding the recognition of deferred tax liabilities and tax assets.

Income and expenses recognized by the Bank are grouped according to their nature in the relevant items of the financial statements in the "statement of comprehensive income". In order to determine the financial result of the reporting period the income of the reporting period is reconciled with the expenses incurred to obtain this income. Income and expenses are accounted for as incurred, regardless of the date of receipt or payment of cash assets. Income and expenses of the Bank are accounted for using the basic accounting principles, in particular, accrual, matching and prudence concepts.

Note 4.22. Foreign currency revaluation

Income and expenses in foreign currencies were disclosed in the statement of comprehensive income at the official foreign exchange rate set by the National Bank of Ukraine at the transaction date. Foreign exchange differences arising in respect of foreign currency transactions are recognized as income or expenses of the reporting period.

The Bank's assets and liabilities in foreign currencies are stated at the official foreign exchange rate as at the reporting date.

The official foreign exchange rates as at 31 December 2019 were as follows:

840=USD=100=UAH 2 368,6200

978=EUR=100=UAH 2 642,2000 грн

Monetary balance sheet items in foreign currencies are accounted for using the current foreign exchange rate; non-monetary items stated at historical cost, deposit of which to the balance is related to a foreign currency transaction, are accounted for at the foreign exchange rate at a transaction date. All foreign currency accounts are revalued every time the official foreign currency rate of the National Bank of Ukraine changes.

The Bank's Management policy regarding the risk of losses due to changes in foreign exchange rates is disclosed in Corporate information in 2019 and Note "Financial risk management".

Note 4. Summary of significant accounting policies (continued)

Note 4.23. Mutual offset of assets and liabilities

Financial assets and liabilities with subsequent inclusion in the statement of financial position of only their net amount can be mutually offset only if there is a legally enforceable right to offse the recognized amounts, if there is an intention to settle a transaction on a net basis or to realize simultaneously an asset and settle a liability.

The Bank did not offset assets and liabilities during the reporting period.

Note 4.24. Employee benefits and related charges

The Bank recognizes expenses for employee benefits at least once a month in profit and loss and other comprehensive income. These payments include principal and additional salaries, payment of annual principal and additional vacations, compensation for the first 5 days of temporary disability, bonuses and rewards, an allowance for unused vacations, costs for occupational pension scheme, payroll tax and social security tax costs.

Note 4.25. Business segment reporting

The Bank primarily focuses on one business segment, namely treasury operations, which includes:

- activities in the monetary market regarding attraction and investment of funds in the interbank market of Ukraine;
- foreign exchange market services including foreign currency transactions at the customers' disposal and at the Bank's expense.
- transactions with securities in the Bank's portfolio.

Other operations comprised assets (liabilities) not included in the main segment, such as cash, correspondent accounts in the National Bank of Ukraine, liabilities related to the administrative and economic activities of the Bank, settlements with employees, settlements in respect of taxes and levies to the state and local budgets, to the Pension Fund, other extra budgetary funds.

During 2019, the Bank did not apply transfer pricing methods in the preparation of financial statements by business segments, given the characteristics of the organizational structure.

Note 4.26. Significant accounting estimates and assumptions

The Bank in its operational, financial, investment and economic activities makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually revised and are based on the Management's experience and other factors, including expectations of future events that are considered to be reasonable for the circumstances. In addition to the judgments that provide for estimates, the Management also uses assumptions in applying the accounting policies. The results of review of estimates and assumptions are recognized in the review period and valid until the next revision of estimates and assumptions.

Assumptions that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause significant adjustments to the carrying amount of assets and liabilities within subsequent financial periods include:

Related party transactions

In the normal course of business, the Bank enters into transactions with related parties. In the absence of an active market for such transactions, assumptions are used. The basis for assumptions is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Note 4. Summary of significant accounting policies (continued)

Initial value of financial instruments

The Bank shall account for financial instruments at fair value at initial recognition. In the absence of an active market for the relevant financial instruments to determine their market (non-market) rates, assumptions are used on the basis of agreements between independent, knowledgeable, and interested parties.

Going concern

The fundamental assumption of the financial statements' preparation is the going concern assumption - the Bank prepares its financial statements on the assumption that it is able to continue its activities in the foreseeable future as a going concern, has neither the intention nor the need for the elimination or significant reduction in the volume of transactions.

Note 4.27. Related party transactions

During 2019, the Bank carried out transactions with related parties, detailed information regarding which is disclosed in the relevant note.

Note 5. Adoption of new and revised Standards

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 16 Leases

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

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 4 Significant accounting policies. The impact of the adoption of IFRS 16 on the Bank's financial statements is described below.

The Bank applied a modified retrospective approach and did not adjust the balances of previous years. The following tables reflect the impact of applying IFRS 16.

Reconciliation of the carrying amount of IAS 17 with balances that are recognized under IFRS 16 as of January 1, 2019:

	Explanation	Prior to adoption of IFRS 16	Change in estimation	After adoption of IFRS 16
Assets				
Right-of-use assets	5.1	-	1 625	1 625
Total		**-**	**1 625**	**1 625**
Liabilities				
Other liabilities		22 479	1 625	24 104
Total		**22 479**	**1 625**	**24 104**

5.1. The weighted average rate used to determine the lease obligations recognized in the statement of financial position at the date of first application of IFRS 16 was 18%. As a result of changes in estimates, there was no impact on retained earnings of the Bank

Note 5. Adoption of new and revised Standards (continued)

Adoption of amendments to IFRS Standards and Interpretations that has not had any material impact on financial statements of the Group

In the current year, the Bank has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IFRS 9 Financial Instruments– Prepayment Features with Negative Compensation.

- Amendments to IAS 28 Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures.

- Annual Improvements to IFRS Standards 2015–2017 – Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement.

- IFRIC 23 Uncertainty over Income Tax Treatments.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 – Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2021).

- IFRS 10 and IAS 28 (amendments) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (The effective date of the amendments has yet to be set by the IASB).

- Amendments to IFRS 3 – Definition of a business (applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020).

- Amendments to IAS 1 and IAS 8 – Definition of material (applied prospectively for annual periods beginning on or after 1 January 2020).

- Amendments to IFRS 9, IAS 39 and IFRS 7 – IBOR Reform (effective for annual periods beginning on or after 1 January 2020).

- Conceptual Framework Amendments to References to the Conceptual Framework in IFRS Standards (amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020).

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

(in UAH thousand)

6. Cash and cash equivalents

	2019	2018
Cash with the National Bank of Ukraine	24 557	15 524
Correspondent accounts at other banks:	63 650	55 026
Ukraine	63 650	55 026
Provisions for impairment of due from other banks	(11 455)	(12 975)
Total cash and cash equivalents	**76 752**	**57 575**

Bank balances are placed at correspondent accounts with resident banks of Ukraine, not adjudged bankrupt or under liquidation, or forced into temporary administration.

7. Loans to and other amounts due from banks

Table 7.1. Loans to and other amounts due from banks

	2019	2018
Due from other banks carried at amortized cost	40 128	-
Provisions for impairment of due from other banks	(8 427)	-
Total due from other banks less provisions	**31 701**	**-**

Table 7.2. Loans to and other amounts due from banks carried at amortized cost

	2019	2018
Due from other banks (short-term)	40 128	-
Provisions for impairment of due from other banks	(8 427)	-
Total due from other banks less provisions	**31 701**	**-**

Table 7.3. Loan quality analysis related to due from other banks as at 31 December 2018

	Stage 1	Stage 2	Stage 3	POCI	Total
Due from other banks	40 128	-	-	-	40 128
Low credit risk	40 128	-	-	-	40 128
Total due from other banks	40 128	-	-	-	40 128
Provisions for impairment of due from other banks	(8 427)	-	-	-	(8 427)
Total due from other banks less provisions	**31 701**	**-**	**-**	**-**	**31 701**

Table 7.4. Analysis of changes in provisions for impairment of due from other banks carried at amortized cost

	Stage 1	Stage 2	Stage 3	POCI	Total
Provisions for impairment as at the beginning of the period	-	-	—		-
(Increase)/decrease in provision for impairment during the year	(8 427)	-	-	-	(8 427)
Provisions for impairment as at the end of the period	**(8 427)**	**-**	**-**	**-**	**(8 427)**

The amount of the increase of the provision of UAH 8 427 thousand is an integral part of the amount UAH 29 754 thousand in the "Statement of profit or loss and other comprehensive income" ("Net (increase)/decrease in provisions for impairment of other financial assets ").

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers measured at amortized cost

	2019	2018
Loans and advances to customers measured at amortized cost	109 355	200 261
Provision for loan impairment	(6 239)	(42 900)
Total loans to customers less provisions	**103 116**	**157 361**

Table 8.2. Loans and advances to customers measured at amortized cost

	2019	2018
Loans to legal entities	108 791	199 439
Loans to individuals	564	822
Provision for loan impairment	(6 239)	(42 900)
Total loans to customers less provisions	**103 116**	**157 361**

During 2019 the loan portfolio demonstrated positive dynamics, but at the moment it forms about one tehth of assets. Customer lending has a batch nature. Concentration of the loan portfolio b major borrowers remains relevant. At the same time, the loans granted to legal entities are diversified by types of economic activity. The currency structure of the loans and advances t customers changed during the analyzed period. The Bank does not have non-performing loans. The loan provisioning ratio exceeds 6%.
The structure of loans to legal entities comprises a loan to the Bank's related person in the amount of UAH 9 820 thousand.

Table 8.3. Analysis of loan quality for the reporting period

	Stage 1	Stage 2	Stage 3	Total
Loans to customers carried at amortized cost				
Low credit risk	63 692	-	-	63 692
Medium credit risk		45 663	-	45 663
Total loans customers	63 692	45 663	-	109 355
Provisions for loan impairment	(3)	(6 236)	-	(6 239)
Total loans to customers	63 689	39 427	-	103 116

Table 8.4. Analysis of loan quality for 2018

	Stage 1	Stage 2	Stage 3	Total
Loans to customers carried at amortized cost				
Low credit risk	134 031	-	-	134 031
Medium credit risk	-	14 276		14 276
High credit risk	-	-	51 954	51 954
Total loans customers	134 031	14 276	51 954	200 261
Provisions for loan impairment	(5 878)	(6 245)	(30 777)	(42 900)
Total loans to customers	128 153	8 031	21 177	157 361

Note 8. Loans and advances to customers (continued)

Table 8.5. Analysis of changes in loan loss provisions for the reporting period

	Stage 1	Stage 2	Stage 3	Total
Provisions for loan impairment opening balance	(5 878)	(6 245)	(30 777)	(42 900)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	(30 777)	30 777	-
Transfers to stage 3	-	-	-	-
Other changes (increase/decrease)	5 875	30 786	-	36 661
Provisions for loan impairment closing balance	(3)	(6 236)	-	(6 239)

The amount of thedecrease of the provision of UAH 36 661 thousand is an integral part of the amount UAH 29 754 thousand in the "Statement of profit or loss and other comprehensive income" ("Net (increase)/decrease in provisions for impairment of financial assets ").

Table 8.6. Analysis of changes in loans to customers balances for the reporting period

	Stage 1	Stage 2	Stage 3	Total
Gross loans opening balance	134 031	14 276	51 954	200 261
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	29 763	(29 763)	-
Transfers to stage 3	-	-	-	-
Other changes (repayment/provision)	(70 342)	(4 612)	(22 191)	(97 145)
Gross loans closing balance	63 689	39 427	-	103 116

Table 8.7 Loan structure by types of economic activities

	2019		2018	
	amount	%	amount	%
Health care	15 900	15	14 276	7
Rent of other machines, equipment and goods	-	-	58 986	29
Other support activities in the field of transport	16	-	21 189	11
Gas trading through local pipelines	4	-	49	-
Wholesale of beverages	-	-	51 913	26
Construction	29 763	27	51 954	26
Food production	63 108	58	1 072	1
Total loans and advances to customers except for provisions	**108 791**	**100**	**199 439**	**100**

Note 8. Loans and advances to customers (continued)

Table 8.8. Information on loans within the type of collateral for the reporting period

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	9 321	-	9 321
Loans secured by:	99 470	564	100 034
Cash collateral	2 040	-	2 040
Securities	58 138	-	58 138
real estate	38 246	564	38 810
including residential housing	6 336	564	6 900
other assets	1 046	-	1 046
Total loans and advances to customers except for provisions	**108 791**	**564**	**109 355**

Table 8.9. Information on loans within the type of collateral as at 31 December 2018

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	53 034	-	53 034
Loans secured by:	146 405	822	147 227
Cash collateral	80 174	-	80 174
real estate	63 635	822	64 457
- including residential housing	2 459	822	3 281
other assets	2 596	-	2 596
Total loans and advances to customers except for provisions	**199 439**	**822**	**200 261**

Collateral value in this Note is indicated in the amount of future expected cash flows from collateral with regard to the collateral's liquidity ratio and implementation costs, according to the internal regulations of the Bank.

Table 8.10. Impact of collateral value on loan quality as at the reporting date

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	108 791	99 471	9 320
Loans to individuals	564	564	-
Total loans	**109 355**	**100 035**	**9 320**

Table 8.11. Impact of collateral value on loan quality as at 31 December 2018

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	199 439	146 404	53 035
Loans to individuals	822	822	-
Total loans	**200 261**	**147 226**	**53 035**

When calculating the allowance for impairment of financial instruments to comply with the principle of prudence, the Bank only considers highly liquid collateral, enforced collection of which is more reliable.

(in UAH thousand)

Note 9. Investments in securities

Table 9.1. Investments in securities

	2019	2018
Securities carried at amortized cost	333 420	190 250
Securities carried at fair value through other comprehensive income	466 805	509 679
Total investments in securities	**800 225**	**699 929**

Table 9.2. Securities carried at amortized cost

	2019	2018
Debt securities:	333 420	190 250
Deposit certificates of the National Bank of Ukraine	333 420	190 250
Total investments in securities	**333 420**	**190 250**

Deposit certificates of the National Bank of Ukraine are accounted for in the Bank's portfolio at amortized cost and comprise accrued interest in the amount of UAH 420 thousand as at 31 December 2019.

Table 9.3. Securities carried at fair value through other comprehensive income

	2019	2018
Debt securities:	466 805	509 679
Government bonds	466 805	509 679
Total investments in securities	**466 805**	**509 679**

Government bonds are carried at fair value through other comprehensive income and comprise accrued interest accrued in the amount of UAH 10 389 thousand UAH as at 31 December 2019.

Table 9.4. Loan quality analysis related to investments in securities carried at amortized cost as at 31 December 2019

	Stage 1	Stage 2	Stage 3	Total
Investments in secured carried at amortized cost				
Low credit risk	333 420	-	-	333 420
Medium credit risk	-	-	-	-
Total investments in securities	333 420	-	-	333 420
Provisions for impairment	-	-	-	-
Total debt securities	**333 420**	**-**	**-**	**333 420**

Note 9. Investments in securities (continued)

Table 9.5. Loan quality analysis related to investments in securities carried at fair value through other comprehensive income as at 31 December 2019

	Stage 1	Stage 2	Stage 3	Total
Investments in secured carried at amortized cost				
Low credit risk	449 464	-	-	449 464
Medium credit risk	17 341	-	-	17 341
Total investments in securities	466 805	-	-	466 805
Provisions for impairment	-	-	-	-
Total debt securities	**466 805**	**-**	**-**	**466 805**

Table 9.6. Loan quality analysis related to investments in securities carried at amortized cost as at 31 December 2018

	Stage 1	Stage 2	Stage 3	Total
Investments in secured carried at fair value through other comprehensive income				
Low credit risk	190 250	-	-	190 250
Medium credit risk	-	-	-	-
Total investments in securities	190 250	-	-	190 250
Provisions for impairment	-	-	-	-
Total debt securities	**190 250**	**-**	**-**	**190 250**

Table 9.7. Loan quality analysis related to investments in securities carried at fair value through other comprehensive income as at 31 December 2018

	Stage 1	Stage 2	Stage 3	Total
Investments in secured carried at amortized cost				
Low credit risk	317 807	-	-	317 807
Medium credit risk	191 872	-	-	191 872
Total investments in securities	509 679	-	-	509 679
Provisions for impairment	-	-	-	-
Total debt securities	**509 679**	**-**	**-**	**509 679**

10. Derivative financial assets

Table 10.1. Financial assets that are recognized at fair value through profit or loss

	2019	2018
Assets under forward agreements	-	4 799
Assets under future agreements	-	-
Assets under contracts under terms of SWAP	-	66
Total financial assets that are recognized at fair value through profit or loss	**-**	**4 865**

(in UAH thousand)

Note 11. Fixed and intangible assets

As at 31 December 2019, the Bank has no:

- fixed assets, possession, use or disposal of which is restricted by the current legislation;
- fixed assets pledged, withdrawn from service, temporarily not used or transferred to assets for sale;
- intangible assets, ownership of which is restricted or property rights are not registered;
- increase or decrease arising from revaluations and as a result of impairment losses recognized or created directly in equity.

	Machinery and equipment	Instruments, fixtures and fittings	Other fixed tangible assets	Intangible assets	Assets under leas	Total
Carrying amount as at 31 December 2017	**529**	**4**	**-**	**1 367**	**-**	**1 900**
Historical cost	1263	268	745	2 018	-	4 294
Depreciation	(734)	(264)	(745)	(651)	-	(2 394)
Additions	253	52	-	182	-	487
Capital investments into fixed assets completion and intangible assets improvement	6	-	-	133	-	139
Disposals	-	(15)	-	-	-	(15)
Accumulated depreciation written-off upon disposal	-	15	-	-	-	15
Amortization charges	(311)	(9)		(265)		(585)
Carrying amount as at 31 December 2018	**477**	**47**	**-**	**1 417**	**-**	**1 941**
Historical cost	1 522	306	745	2 333	-	4 906
Depreciation	(1 045)	(259)	(745)	(916)	-	(2 965)
Additions	1 089	49	195	-	1 625	2 958
Capital investments into fixed assets completion and intangible assets improvement	38	-	-	34	-	72
Disposals	-	-	-		-	-
Accumulated depreciation written-off upon disposal	-	-	-		-	-
Amortization charges	(284)	(20)	(195)	(304)	(828)	(1 631)
Carrying amount as at 31 December 2019	**1 320**	**76**		**1 147**	**797**	**3 340**
Historical cost	2 649	355	940	2 367	1 625	7 936
Depreciation	(1 329)	(279)	(940)	(1 220)	(828)	(4 596)

(in UAH thousand)

Note 12. Other assets

Table 12.1. Other assets

	2019	2018
Prepayments for services	-	18
Deferred expenses	2 473	3 043
Income for services accrued	2	1
Other	13	8
Provisions for other assets impairment	(1)	(19)
Total other financial assets less provisions	**2 487**	**3 051**

Table 12.2. Analysis of changes in provisions for other assets impairment for the reporting period

	Other financial assets	Prepayments for services	Total
Opening balance:	(18)	(1)	(19)
(Increase)/decrease of the provisions during the period	18	-	18
Closing balance	**-**	**(1)**	**(1)**

Note 13. Due to other banks

	2019	2018
Money coverage received from banks as collateral provided guarantee	240 823	-
Sale and repurchase agreements with other banks	47 389	-
Total due to other banks	**288 212**	**-**

Note 14. Due to customers

Table 14.1 Due to customers

	2019	2018
State organizations:	**22**	**51**
-Current accounts	22	51
-Term deposits	-	-
Other legal entities:	**389 108**	**496 403**
-Current accounts	369 512	459 034
-Term deposits	19 596	37 369
Private individuals:	**5 540**	**90 372**
-Current accounts	4 392	8 638
-Term deposits	1 148	81 734
Total due to customers	**394 670**	**586 826**

(in UAH thousand)

Note 14. Due to customers (continued)

Table 14.2 Customer funds allocation by economic activities

	2019		2018	
	amount	%	amount	%
Financial and insurance activities	170 663	43,24	54 474	9,28
Services (financial)	116 651	29,56	150 693	25,68
Information and telecommunications	246	0,06	31	0,01
Trading	12 666	3,21	45 079	7,68
Agriculture and Fishery	288	0,07	6	0,00
Storage facilities and transportation supporting activities	13 206	3,35	57	0,01
Mining	186	0,05	156	0,03
Construction	826	0,21	3 538	0,60
Electricity supply	14 116	3,58	18 885	3,22
Consulting	346	0,09	3 075	0,52
Publict organizations	1 126	0,29	1 154	0,20
Production	19 069	4,83	173 311	29,53
Health care	7	0,00	741	0,13
Property transactions	14 052	3,56	40 232	6,86
Private individuals, including non-residents	5 587	1,40	90 371	15,39
Investors-non-residents	25 635	6,50	5 023	0,86
Total customer funds	**394 670**	**100**	**586 826**	**100,00**

Note 15. Derivative financial liabilities

	2019	2018
Liabilities under forward agreements	36	997
Liabilities under contracts under terms of SWAP	-	1 421
Total financial liabilities that are recognized at fair value through profit or loss	**36**	**2 418**

Note 16. Provisions for liabilities

	Loan liabilities	Total
Opening balance	**101**	**101**
Creation and/ or increase of provisions	(27)	(27)
Closing balance	**74**	**74**

Provisions for liabilities consist of reserves for possible impairment losses on provided financial guarantees with maturity in 2020.

(in UAH thousand)

Note 17. Other liabilities

	2019	2018
Accounts payable for settlements with employees	7 334	5 707
Accounts payable for taxes and charges apart from income tax	10	185
Accounts payable for foreign currency transactions	-	16 397
Accounts payable for customer transactions	25	7
Expenses for telecommunication and operation services	19	128
Operating lease liabilities	931	-
Accounts payable for accrued expenses	57	55
Total	**8 376**	**22 479**

Note 18. Share capital

(in pcs)

	Number of shares in circulation (pcs.)	Ordinary shares	Preferred shares	Total
Balance as at 1 January 2019	**122 000**	**122 000**		**122 000**
Contributions on newly issued shares (unit shares, stocks)	-	-	-	-
Balance as at 31 December 2019	**122 000**	**122 000**		**122 000**

As at 31 December 2019, the share capital amounts to UAH 300 120 thousand. The share capital is divided into 122 000 ordinary registered shares paid in full.

During the year the Bank registered share capital has not chanhed; an ordinary registered share denomination amounted to UAH 2 460. Ordinary registered shares entitle a shareholder to participate in the management of the Bank, receive dividends, use the preferential right to purchase additionally issued shares if such shares are privately placed, dispose own shares, receive in case of liquidation of the Bank a part of its assets or value of assets. One ordinary share gives the shareholder one voice to address every issue at the General Meeting, except in cases of cumulative voting. Payment of dividends to shareholders based on each of their shares of a certain type is made of net profit for the reporting year and/or retained earnings in the amount determined by the Decision of the General Meeting within a period not later than six months after the end of the year. The Bank pays dividends entirely in cash.

There was no repurchase of own stock during the reporting period. Dividends were not declared to be payable and were not paid accordingly.

Note 19. Revaluation reserves (other comprehensive income components)

	2019	2018
Revaluation of debt securities in the Bank portfolio:	**(1 153)**	**(2 039)**
Revaluation changes to fair value	(1 153)	(2 039)
	207	**367**
Income tax related to:		
Change in reserve for revaluation	207	367
Total revaluation reserves (other comprehensive income)	**(946)**	**(1 672)**

(in UAH thousand)

Note 20. Analysis of assets and liabilities by maturities

	(Note)	2019			2018		
		Less than 12 months	More than 12 months	**Total**	Less than 12 months	More than 12 months	**Total**
Assets							
Cash and cash equivalents	6	76 752	-	76 752	57 575	-	57 575
Due from other banks	7	31 701	-	31 701	-	-	-
Loans and advances to customers	8	72 789	30 327	103 116	127 330	30 031	157 361
Investments in securities	9	800 225	-	800 225	699 929	-	699 929
Derivative financial assets	10	-	-	-	4 865	-	4 865
Income tax receivables		4 756	-	4 756	4 080	-	4 080
Deferred tax assets	24	2 155	-	2 155	4 657	578	5 235
Fixed assets	11	-	2 543	2 543	-	1 941	1 941
Assets under the operating lease		797	-	797	-	-	-
Other assets	12	1 692	796	2 487	3 051	-	3 051
Total assets		**990 867**	**33 666**	**1 024 532**	**901 487**	**32 550**	**934 037**
Liabilities							
Due to other banks	13	288 212	-	288 212	-	-	-
Due to customers	14	394 670	-	394 670	586 826	-	586 826
Derivative financial liabilities	15	36	-	36	2 418	-	2 418
Other liabilities	17	8 376	-	8 376	22 479	-	22 479
Provision for liabilities	16	74	-	74	101	-	101
Total liabilities		**691 368**	**-**	**691 368**	**611 824**	**-**	**611 824**

Note 21. Interest income and expenses

	2019	2018
Interest income calculated using effective interest rate		
Interest income on financial assets measured at amortized cost		
Loans to customers	25 600	18 967
Due from other banks	9 596	16 437
Correspondent accounts in other banks	38	6 227
Total interest income on financial assets measured at amortized cost	**35 234**	**41 631**
Debt securities		
Loans and advances to customers	100 259	131 121
Total interest income on financial assets measured at fair value through other comprehensive income	**100 259**	**131 121**
Total interest income measured using effective interest rate	**135 493**	**172 752**
Interest expenses calculated using effective interest rate		
Interest expenses on financial liabilties measured at amortized cost		
Legal entities term deposits	(3 810)	(20 213)
Due to individual customers	(1 329)	(2 170)
Banks' deposits	(25 166)	(1 408)
Current accounts	(24 629)	(25 859)
Operating lease	(157)	-
Other		(42)
***Total interest expenses* measured using effective interest rate**	**(55 091)**	**(49 692)**
Net interest income/(expenses)	**80 402**	**123 060**

Comparing to the results of 2018 there was a decrease in net interest income.

(in UAH thousand)

Note 22. Fee and commission income and expenses

	2019	2018
Fee and commission income		
Settlement and cash transactions	3 643	3 358
Currency market trading	6 410	8 291
Guarantee transactions	124	197
Other	2	1570
Total fee and commission income	**10 179**	**13 416**
Fee and commission expenses		
Settlement and cash transactions	(1 991)	(1 533)
Securities trading	(38)	(29)
Other	(16)	(148)
Total fee and commission expenses	**(2 045)**	**(1 709)**
Net fee and commission income/expense	**8 134**	**11 707**

Comparing to the results of 2018 there was a decrease in net fee and commission income.

Note 23. Administrative and other operating expenses

Table 23.1 Salaries and wages

	2019	2018
Salaries	(23 886)	(21 796)
Social security contributions	(2 812)	(2 695)
Other benefits	(370)	(330)
Total salaries and wages	**(27 068)**	**(24 821)**

Table 23.2. Depreciation and amortization

	2019	2018
Fixed assets depreciation	(303)	(320)
Software and other intangible assets amortization	(499)	(265)
Leased assets depreciation	(827)	-
Total depreciation and amortization expenses	**(1 629)**	**(585)**

Table 23.3. Administrative and other operating expenses

	2019	2018
Emoluments to key management personnel	(90 430)	(101 362)
Fixed and intangible assets maintenance	(1 715)	(1 271)
Operating leasing (rent)	(278)	(904)
Other taxes and mandatory fees, except for income tax	-	(786)
Communication expenses	(2 855)	(2 464)
Audit expenses	(838)	(505)
Costs on data storage services	(796)	(629)
Operating and household services	(649)	(603)
Other expenses	(1 977)	(1 802)
Reserves	18	-
Total administrative and other operating expenses	**(99 520)**	**(110 326)**

Note 23. Administrative and other operating expenses (continued)

Average number of the Bank's employees in 2019 amounted to 23 persons.

The structure of staff costs includes:

- salaries and wages amounting to UAH 17 817 thousand;
- social security tax - UAH 2 812 thousand;
- formation of allowance for unused vacations - UAH 2 134 thousand;
- contributions to non-state pension provision - UAH 143 thousand.
- costs of voluntary medical insurance of employees UAH 204 thousand;
- remuneration to key management personnel under contracts UAH 90 430 thousand.

Significant increase in administrative expenses in the reporting period caused by increase in management emoluments. This does not indicate a deterioration in the financial position or a decline in the efficiency. The financial result during the year was positive.

Note 24. Income tax expenses

Table 24.1 Income tax expenses

	2019	2018
Current income tax	676	(7 096)
Change of deferred income tax	(2 920)	4 791
Income tax, paid from foreign income at the source of payment	-	(4)
Total income tax expenses	**(2 244)**	**(2 309)**

Table 24.2 Reconciliation of accounting income/loss and taxable income/loss

	2019	2018
Income before tax	12 469	12 774
Theoretical tax liabilities at the relevant tax rate	(2 244)	(2 299)
Expenses not included in the amount of taxable income, but recognized in accounting records aiming at calculation of:	12	(4 800)
Depreciation and amortization	4	4
Impairment provisions	8	(4)
Loss on disposal of securities	-	(4798)
Gains that are included in taxable income, but are recognized in tax accounting	2 909	-
Gain on disposal of securities	2 909	-
Other gains	(1)	(1)
Change in deferred income tax	(2 920)	4 791
Amount of income tax expenses	**(2 244)**	**(2 309)**

Note 24. Income tax expenses (continued)

Table 24.3. Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2019

	Balance as at 31 December 2018	Recognized in statement of comprehensive income	Recognized in equity	Balance as at 31 December 2019
Deferred tax asset due to:				
Excess of acquisition cost in tax accounting over cost of securities in the Bank portfolio	367	-	(159)	208
Depreciation allowance	68	(4)	-	64
Gain less loss on disposal of securities	4 798	(2 909)	-	1 889
Impairment reserves	-	(8)	-	(8)
Formation of allowance for unused vacations	-	2		2
Other	1	(1)	-	-
Net deferred tax asset/(liability)	5 234	(2 920)	(159)	2 155

Table 24.4. Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2018

	Balance as at 31 December 2017	Recognized in statement of comprehensive income	Recognized in equity	Balance as at 31 December 2018
Deferred tax asset due to:				
Excess of acquisition cost in tax accounting over cost of securities in the Bank portfolio	501	-	(134)	367
Depreciation allowance	72	(4)	-	68
Gain less loss on disposal of securities	-	4 798	-	4 798
Other	4	(3)	-	1
Net deferred tax asset/(liability)	**578**	**4 791**	**(134)**	**5 234**

Note 25. Profit/(loss) per one ordinary and preferred share

Table 25.1 Net and adjusted profit/(loss) per one ordinary and preferred share

	2019	2018
Profit /(loss) attributable to Bank ordinary Shareholders (UAH thousand)	10 225	10 465
Annual profit/(loss) (UAH thousand)	10 225	10 465
Average annual number of ordinary shares outstanding (thousand, pcs)	122	122
Net profit/ (loss) per an ordinary share (UAH)	**83,81**	**85,78**
Adjusted net income/ (loss) per an ordinary share, UAH	**83,81**	**85,78**

(in UAH thousand)

Note 25. Profit/(loss) per one ordinary and preferred share (continued)

Table 25.2 Calculation of profit/(loss) attributable to the Bank ordinary and preference Shareholders

	2019	2018
Profit /(loss) for the year attributable to Bank Shareholders	10 225	10 465
Retained earnings/(losses) for the year	10 225	10 465
Retained earnings/(losses) for the year attributable to Bank ordinary Shareholders depending on terms of shares	10 225	10 465
Profit/ (loss) attributable to Bank ordinary Shareholders	10 225	10 465

Note 26. Operating segments

Table 26.1. Income, expenses and operating segment results for 2019

	Operating segments		Total
	Treasury operations	Other	
Interest income	135 493	-	135 493
Fee and commission income	6 534	3 645	10 179
Gain on disposal from trading securities held at fair value through profit and loss	11 382	–	11 382
Gain on disposal from trading securities held at fair value through other comprehensive income	8 084		8 084
Gains on foreign currency transactions	19 404	–	19 404
Gains on foreign currency revaluation	(16 883)		(16 883)
Other operational income	381		381
Total income	**164 395**	**3 645**	**168 040**
Interest expenses	(55 091)	-	(55 091)
Commission expenses	(38)	(2 007)	(2 045)
Allocation to provision for impairment of financial assets	29 754	-	29 754
Allocations to provision for liabilities	28	-	28
Staff costs	(27 068)		(27 068)
Depreciation and amortisation	-	(1 629)	(1 629)
Administrative expenses	(9 090)	(90 430)	(99 520)
Total expenses	**(61 505)**	**(94 066)**	**(155 571)**
Income tax expenses	(2 244)	-	(2 244)

Table 26.2 Assets and liabilities of operating segments for 2019

	Operating segments		Total
	Treasury operations	Other	
Segment assets	884 121	140 411	1 024 532
Total assets	**884 121**	**140 411**	**1 024 532**
Segment liabilities	682 918	8 450	691 368
Total liabilities	**682 918**	**8 450**	**691 368**

Table 26.3. Income, expenses and operating segment results for 2018

	Operating segments		Total
	Treasury operations	**Other**	
Interest income	172 752	-	172 752
Fee and commission income	8 488	4 928	13 416
Gains on securities trading in the Bank trading portfolio	(1 002)	–	(1 002)
Gains on other financial instruments revaluation	(8 492)		(8 492)
Gains on foreign currency transactions	10 087	–	10 087
Gains on foreign currency revaluation	(16 404)		(16 404)
Gains/(losses) that arise from initial recognition of financial assets at an interest rate that is higher or lower than the market rate	1 637		1 637
Other operational income	18		18
Total income	**167 084**	**4 928**	**172 012**
Interest expenses	(49 692)	-	(49 692)
Fee and commission expenses	(28)	(1 681)	(1 709)
Allocation to provision for impairment of financial assets	42 709	-	42 709
Gains/(losses) that arise from initial recognition of financial assets at an interest rate that is higher or lower than the market rate	(14 813)		(14 813)
Allocations to provision for liabilities	(1)	-	(1)
Staff costs	(24 821)		(24 821)
Depreciation and amortisation	-	(585)	(585)
Administrative expenses	(8 964)	(101 362)	(110 326)
Total expenses	**(55 610)**	**(103 628)**	**(159 238)**
Income tax expenses	(2 309)	-	(2 309)

Table 26.4 Assets and liabilities of operating segments for 2018

	Operating segments		Total
	Treasury operations	Other	
Segment assets	746 845	187 192	934 037
Total assets	**746 845**	**187 192**	**934 037**
Segment liabilities	605 641	6 183	611 824
Total liabilities	**605 641**	**6 183**	**611 824**

Note 27. Financial risk management

The Bank developed and implemented the procedures for risk management and control. The risk management process is based on relevant regulations of the National Bank of Ukraine. The risk management process at the Bank consists of the prevention, identification, measurement, analysis, actions, control and monitoring, as well as reporting.

Credit risk

Credit risk management, limitation of its negative impact on the Bank's activities is one of the key tasks of strategic management. According to the recommendations of the Basel Committee on Banking Supervision, the Bank uses the standardized approach for credit risk assessment. In the process of credit risk management both quantitative risk assessment and qualitative (expert) risk assessment methods are used.

In order to manage credit risk in transactions with legal entities and individuals the Bank adheres to the following principles of the credit policy:

- investments exclusively in profitable and high-quality credit assets;
- well-balanced approach to lending of corporate customers based on the analysis of financial indicators, activities of entities, markets, industry trends, etc.;
- application of the borrower's identification principle "Know Your Customer";
- a decision on credit provision is based on the qualitative analysis of the borrower's solvency, loan repayment sources and the entity's expected future development;
- diversification of loan portfolio with regard to industry risks, a tendency towards influence of global trends, export orientation, market volatility.

The ratio of the sum of all claims of the Bank to the counterparty or group of related counterparties and all financial obligations given by the Bank to the counterparty or a group of related counterparties to the regulatory capital of the Bank (hereinafter - H7) shall not exceed 25 percent. As of December 31, 2019, the value of the H7 norm was 11.57%.

Market risk

The Bank's risk management system is aimed at ensuring the implementation of business goals defined under the Bank's development strategy and enhancing its value, optimization of the potential opportunities and risks ratio, the Bank's capital stock and growth rate.

The main instrument in implementation of these objectives is a comprehensive risk management system established at the Bank that provides action coordination across all the Bank's departments within a single risk management strategy, approved by the Supervisory Board. Formation of the integrated system is aimed at maximum concentration of risk management functions at the managing underwriter level. This approach is implemented through specified procedures and regulations of the Bank, providing a set of limits and transaction rules for regional institutions.

Foreign currency risk

Table 27.1 Foreign currency risk analysis

Currency	As at 31 December 2019			As at 31 December 2018		
	Monetary assets	Monetary liabilities	Net foreign exchange position	Monetary assets	Monetary liabilities	Net foreign exchange position
USD	101 070	115 620	(14 550)	692 065	702 517	(10 452)
EUR	7 509	80	7 429	6 726	12 835	(6 109)
RUR	217	0	217	107	0	107
Total	**108 796**	**115 700**	**(6 904)**	**698 898**	**715 352**	**(16 454)**

Note 27. Financial risk management (continued)

The risk of financial losses and the possibility of decrease in the cost of capital resulting from changes in foreign exchange rates and prices for precious metals, unfavorable (opposite) for existing open currency positions, is an important type of risk, which arises in the course of the Bank's activities. The amount of possible financial losses depends on the size of the open currency positions and changes in relevant foreign currencies.

Basic methods and models of currency risk management are determined in the "Regulations on currency risk management at PJSC "BANK AVANGARD".

The internal limits for total open foreign exchange position by types of currencies are established at the Bank. The methodology and mechanisms of foreign currency risk management are updated constantly.

The process of foreign currency risk management at the Bank provides for daily monitoring of the compliance of the maximum possible open foreign exchange positions on the basis of acceptable values of capital at risk to the established limits of open currency positions, analysis of volatility in exchange rates and the amount of the foreign currency risk under regular and stress conditions.

Parametric assessment methods based on the assumption of normal distribution of currency fluctuation disturbances (Value-at-Risk methodology, etc.) appeared to be unsuitable for predicting the foreign currency risk magnitude at the Bank. In this situation, based on the analysis of currency fluctuations, a risk magnitude was estimated for each open currency position, as well as an acceptable risk magnitude. Accordingly, the limits for open currency positions were set that represent a subject to daily control of the risk management department and an instrument of foreign currency risk exposure limitation.

Table 27.2 Changes in profit or loss and shareholders' equity due to possible changes of UAH official exchange rate against foreign currencies determined as at the reporting date providing that all other variables remain fixed

	2019		2018	
	Impact on profit/ (loss)	**Impact on equity**	**Impact on profit/ (loss)**	**Impact on equity**
USD strengthening by 25%	(3 638)	(3 638)	(2 613)	(2 613)
USD weakening by 25%	3 638	3 638	2 613	2 613
EUR strengthening by 25%	1 857	1 857	(1 527)	(1 527)
EUR weakening by 25%	(1 857)	(1 857)	1 527	1 527
RUR strengthening by 25%	54	54	27	27
RUR weakening by 25%	(54)	(54)	(27)	(27)

A model of control over capital adequacy level is established at the Bank in order to ensure the sustainability of the Bank's activities, the regulatory capital formation in accordance with the requirements of the National Bank of Ukraine and with regard to the minimum capital requirements set by the Basel Committee on Banking Supervision, as well as for the assessment and monitoring of capital adequacy taking into account all the risks regarding the Bank's continual activities in every direction.

Note 27. Financial risk management (continued)

The risk of financial losses and the possibility of decrease in the cost of capital resulting from changes in foreign exchange rates and prices for precious metals, unfavorable (opposite) for existing open currency positions, is an important type of risk, which arises in the course of the Bank's activities. The amount of possible financial losses depends on the size of the open currency positions and changes in relevant foreign currencies. The analysis of the impact of a projected change in foreign exchange rates on the Bank's financial result is conducted by using approaches developed by the Bank.

The Bank does not consider other risks to be significant for its activities, therefore the Bank does not monitor them.

Interest rate risk

Table 27.3 General analysis of interest rate risk in 2019

Item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Interest-free	Total
2019						
Total financial assets	820 488	72 772	-	30 327	88 208	**1 011 795**
Total financial liabilities	600 054	14 149	956	-	67 836	**682 995**
Net GAP on interest-bearing assets and liabilities as at 31 December	220 434	58 623	-956	30 327	20 372	**328 800**

Table 27.4 General analysis of interest rate risk in 2018

Item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Interest-free	Total
2018						
Total financial assets	751 952	31 742	48 431	30 031	57 575	919 731
Total financial liabilities	493 149	34 958	49 749	-	27 886	605 742
Net GAP on interest-bearing assets and liabilities as at 31 December	258 803	(3 216)	(1 318)	30 031	29 689	313 989

Note 27. Financial risk management (continued)

Table 27.5 Monitoring of interest rates on financial instruments

(%)

	2019				2018			
	UAH	USD	EUR	other	UAH	USD	EUR	other
Assets								
Cash and cash equivalents	0	0	0	0	0,00	0,00	0,00	0,00
Due from other banks	12	0	0	0	18,40	0,00	0,00	0,00
Loans and advances to customers	15,5	0	0	0	15,50	3,50	0,00	0,00
Investment in securities	13,6	4,8	0	0	18,20	6,70	0,00	0,00
Other assets	0	0	0	0	0,00	0,00	0,00	0,00
Liabilities								
Due to other banks	13,4	2,5	0	0	17,40	2,20	0,00	0,00
Due to customers	8,7	0,7	0,01	0	9,72	1,44	0,01	0,00
Current accounts	8,7	0,7	0,01	0	8,80	1,30	0,01	0,00
Term deposits	6,8	1,1	0	0	14,70	1,90	0,00	0,00
Other liabilities	0	0	0	0	0,00	0,00	0,00	0,00

Geographic risk

Table 27.6 Financial assets and liabilities geographic concentration analysis for 2019

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	76 752	-	-	76 752
Due from other banks	31 701	-	-	31 701
Loans and advances to customers	103 116	-	-	103 116
Investment in securities	800 225	-	-	800 225
Derivative financial assets	-	-	-	-
Other financial assets	1	-	-	1
Total financial assets	**1 011 795**	-	-	**1 011 795**
Liabilities				
Due to other banks	288 212	-	-	288 212
Due to customers	367 493	1 542	25 635	394 670
Derivative financial liabilities	36	-	-	36
Other financial liabilities	76	-	-	76
Total financial liabilities	**655 817**	**1 542**	**25 635**	**682 994**

Assets and liabilities were classified based on a counterparty's residence data.

Note 27. Financial risk management (continued)

Table 27.7 Financial assets and liabilities geographic concentration analysis for 2018

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	57 575	-	–	57 575
Due from other banks	-	-	–	-
Loans and advances to customers	157 361	-	-	157 361
Available-for-sale securities in the Bank portfolio	699 929	–	–	699 929
Held-to-maturity securities in the Bank portfolio	4 865	-	-	4 865
Other financial assets	1	–	–	1
Total financial assets	**919 731**	**-**	**–**	**919 731**
Liabilities				
Due to other banks	580 151	1 652	5 023	586 826
Due to customers	2 418	-	-	2 418
Other financial liabilities	16 498	–	–	16 498
Total financial liabilities	**599 067**	**1 652**	**5 023**	**605 742**

Liquidity risk

Table 27.8 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2019

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	76 752	- -		-	-	76 752
Due from other banks	31 701	-	-	-	-	31 701
Loans and advances to customers	20	61 067	11 702	30 327	-	103 116
Investments in securities	800 225	-	-	-	-	800 225
Other financial assets	1	-	-	-	-	1
Total financial assets	**908 699**	**61 067**	**11 702**	**30 327**	**-**	**1 011 795**
Liabilities						
Due to other banks	288 212	-	-	-	-	288 212
Due to customers	379 565	14 143	962	-	-	394 670
Derivative financial liabilities	36	-	-	-	-	36
Other financial liabilities	76	-	-	-	-	76
Total financial liabilities	**667 889**	**14 143**	**962**	-	-	**682 994**
Net liquidity GAP as at 31 December	240 810	46 924	10 740	30 327	-	328 801
Total liquidity GAP as at 31 December	240 810	287 734	298 474	328 801	328 801	

Note 27. Financial risk management (continued)

Table 27.9 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2018

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	15 524	-	-	-	-	15 524
Due from other banks	42 051	-	-	-	-	42 051
Loans and advances to customers	47 156	31 742	48 432	30 031	-	157 361
Investments in securities	699 929	-	-	-	-	699 929
Derivative financial assets	4 865	-	-	-	-	4 865
Other financial assets	1	-	-	-	-	1
Total financial assets	**809 526**	**31 742**	**48 432**	**30 031**	**-**	**919 731**
Liabilities						
Due to other banks	-	-	-	-	-	-
Due to customers	502 118	34 953	49 755	-	-	586 826
Derivative financial liabilities	2 418	-	-	-	-	2 418
Other financial liabilities	16 498	-	-	-	-	16 498
Total financial liabilities	**521 034**	**34 953**	**49 755**	**-**	**-**	**605 742**
Net liquidity GAP as at 31 December	288 492	(3 211)	(1 323)	30 031	-	313 989
Total liquidity GAP as at 31 December	288 492	285 281	283 958	313 989	313 989	-

The process of strategic, legal, operational, technological, compliance, and reputation risk provides for the effective management at all stages (from detection of risks to their minimization and control) and is implemented using relevant parameters.

The key objective of implementation and performance of the system of strategic, legal, operational, technological, compliance, and reputation risk management is to ensure the adoption of appropriate management decisions aimed at reducing the impact of risks on the Bank as a whole, in respect of certain activities of the Bank.

Other risks

The strategic, legal, operational, compliance and reputation risk management system includes:

- definition of the basic risk management principles;
- identification, registration and description of risks separately for each type of risk;
- risk assessment and risk level control (monitoring);
- measures to reduce (minimize) risks and eliminate the negative effects of risks, including the procedure and sources of funding for compensation of damages received;
- formation of the Bank's management structure, development of internal policies, procedures and technologies, taking into account the basic principles of risk management adopted by the Bank;

(in UAH thousand)

Note 28. Capital management

The Bank's objectives in capital management are: to ensure compliance with the capital requirements set by the National Bank of Ukraine and cover the negative crisis effects. To determine the level of equity the Bank assesses the amount of regulatory capital and capital adequacy ratios. The regulatory capital is one of the most important Bank's activity indicators, which purpose is to cover negative implications of different risks that Bank takes during its activity and to ensure the protection of deposits, financial firmness and the Bank stability.

Regulatory capital structure

	As at 31 December 2019	As at 31 December 2018
Core capital		
Actually paid authorized capital stock	300 120	300 120
Reserves and other funds	10 100	9 577
Reduction of core capital		
Intangible assets less amortization	(1 147)	(1 417)
Capital contributions to intangible assets	-	-
Core capital (tier 1 capital)	309 073	308 280
Additional capital		
Provisions for standard liabilities	-	-
Estimated current year profit	10 225	10 465
Uncollected accrued income less provisions	(6 066)	1
Retained earnings from prior years	13 665	3 723
Additional capital (tier 2 capital)	17 824	14 187
Total regulatory capital	**326 897**	**322 467**

The data in the Table above consider the adjusting entries as at 01/01/2020. A regulatory capital adequacy ratio (solvency ratio) reflects the Bank's ability to timely and fully cover its liabilities arising from trade, credit and other monetary operations. The higher the value of the regulatory capital adequacy ratio, the greater the risk portion assumed by the Bank's owners. Alternatively, the lower the ratio value, the greater the risk portion assumed by the Bank's creditors/depositors. A regulatory capital adequacy ratio is set to prevent the excessive shifting of the credit risk and the banking assets default risk from the Bank to the Bank's creditors/depositors.

Each year, the ALCO oversees the preparation of a capitalization plan, which is a part of the Bank's budget and which is aimed at ensuring that the Bank will comply with the minimum capital requirements. It details a projected growth of capital and assets, dividend distributions, future business expansion, losses on bad loans and projected revenues. The plan also aims to support capital adequacy according to regulatory requirements of the National Bank of Ukraine. Due to the Bank's effective policy regarding capital management, the Bank adhered to the regulatory capital adequacy ratio during 2019.

(in UAH thousand)

Note 29. Contingent commitments

Table 29.1. Structure of lending commitments

	As at 31.12.2019	As at 31.12.2018
Lending commitments issued	177 239	100 534
Guarantees issued	2 910	4 305
Provisions for lending commitments	(74)	(101)
Total lending commitments less provisions	**180 075**	**104 738**

Table 29.2. Structure of lending commitments by currencies

	As at 31.12.2019	As at 31.12.2018
UAH	177 433	101 668
EUR	2 642	3 070
Total	**180 075**	**104 738**

As at 31 December 2019, the Bank had no signed agreements of non-cancellable leases and cases pending in courts.

Note 30. Fair value of financial instruments

According to the Regulation on the accounting policies, a fair value is the amount for which an asset can be exchanged or a liability settled in a transaction between knowledgeable, willing and independent parties, namely:

- fair value of an asset is the amount to be paid for the purchase (exchange) of the asset;
- fair value of a liability is the amount required to repay the liability.

The fair value of financial assets freely traded in the market is their quoted prices in an active market. Where the active market is unavailable, or no information on current prices available on the market, or similar items subject to valuation are unavailable, to determine the estimated fair value the Bank uses a method of valuation and assumption in respect of each class of financial assets or financial liabilities.

As at 31 December 2019, available-for-sale securities in the Bank portfolio are accounted for at fair value. Furthermore, the Bank considers that as at 31 December 2019 the value of such high-liquid assets/liabilities as cash and cash equivalents; short-term funds attracted/placed may be equated to the fair value.

Note 30. Fair value of financial instruments (continued)

Information on financial assets in the balance sheet as at 31/12/2019 stated at fair value is presented below:

	Date	Fair value by various valuation methods			Total carrying amount
		Market quotations (level I)	Valuation method using observable data (level II)	Valuation method using indicators not supported by observable market data (level III)	
Securities in the Bank portfolio held at fair value through other comprehensive income	31.12.19	466 805	-	-	466 805
Financial assets that are recognized at fair value through profit or loss	31.12.19	-	-	-	-
Cash and cash equivalents	31.12.19	76 752	-	-	76 752
Total assets	-	-	-	-	**1 024 532**
Financail liabilities, that are recognized at fair value through profit or loss	31.12.19	36	-	-	36
Total liabilities	-	-	-	-	**691 368**

Information on financial assets in the balance sheet as at 31 December 2018 stated at fair value is presented below:

		Fair value by various valuation methods			Total carrying amount
		Market quotations (level I)	Valuation method using observable data (level II)	Valuation method using indicators not supported by observable market data (level III)	
Securities in the Bank portfolio held at fair value through other comprehensive income	31.12.18	509 679	-	-	509 679
Financial assets that are recognized at fair value through profit or loss	31.12.18	4 865	-	-	4 865
Cash and cash equivalents	31.12.18	57 575	-	-	57 575
Total assets	-	-	-	-	**934 037**
Financail liabilities, that are recognized at fair value through profit or loss	31.12.18	2 418	-	-	2 418
Total liabilities	-	-	-	-	**611 824**

Note 31. Presentation of financial instruments by valuation categories

Table 31.1. *Financial assets by valuation categories for 2019*

	Amortized cost	FVOCI	FVTPL	Total
Cash and cash equivalents	76 752	-	-	76 752
Due from other banks	31 701	-	-	31 701
-Loans to other banks	31 701	-	-	31 701
Loans and advances to customers	103 116	-	-	103 116
-Loans to legal entities	102 552	-	-	102 552
-Loans to individuals	564	-	-	564
Investments in securities	333 420	466 805	-	800 225
Other financial assets	2	-	-	2
-Income from services accrued	2	-	-	2
Total financial assets	**544 991**	**466 805**	**-**	**1 011 796**

Table 31.2. Financial assets by valuation categories for 2018

	Amortized cost	FVOCI	FVTPL	Total
Cash and cash equivalents	55 575	-	-	55 575
Due from other banks	-	-	-	-
-Loans to other banks	-	-	-	-
Loans and advances to customers	157 361	-	-	157 361
-Loans to legal entities	156 539	-	-	156 539
-Loans to individuals	822	-	-	822
Investments in securities	190 250	509 679	-	699 929
Other financial assets	1	-	-	4 866
-Positive revaluation on derivatives	-	-	4 865	4 865
-Income from services accrued	1	-	-	1
Total financial assets	**405 187**	**509 679**	**4 865**	**919 731**

Note 32. Related party transactions

Table 32.1 Balances of related party transactions for 2019

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 3.5-22 %)	-	-	-	15 901
Provisions for loan debts as at 31 December	-	-	-	(6 236)
Other assets	-	1	-	-
Due to customers (contract interest rate 0,1- 33%, depending on currency and product)	24 786	277 776	1 254	167

During 2019, the Bank carried out related party transactions on standard terms.

(in UAH thousand)

Note 32. Related party transactions (continued)

Table 32.2. Income and expenses for related party transactions for 2019

	Parent company	Jointly controlled companies	Top management*	Other related parties
Interest income	-	-	-	1 530
Interest expenses	(31)	(16 368)	(168)	(9)
Fee and commission income	757	622	6	9
Impairment expenses	-	-	-	(9)
Other operating income	2 674	27	-	1
Administrative and other expenses	-	-	(97 779)	-
Total	**3 400**	**(15 719)**	**(97 941)**	**1 522**

**Includes members of the Management board and Supervisory Board*

Table 32.3 Balances of related party transactions for 2018

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 17 %)	-	-		96 363
Provisions for loan debts as at 31 December	-	-	-	(6 431)
Due to customers (contract interest rate 0,1- 23%, depending on currency and product)	4 773	93 350	767	105 745
Other liabilities				998

Table 32.4. Income and expenses for related party transactions for 2018

	Parent company	Jointly controlled companies	Top management*	Other related parties
Interest income	-	-	-	3 909
Interest expenses	(1)	(10 099)	(107)	(2 892)
Fee and commission income	42	1 536	1	897
Other operating income	-	11	-	9
Administrative and other expenses	-	-	(111 175)	(2 282)
Total	**41**	**(8 552)**	**(111 281)**	**(359)**

**Includes members of the Management board and Supervisory Board*

Table 32.5. Loans granted to and repaid by related parties in 2018

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans granted to related parties during the period	-	-	-	58 842
Loans repaid by related parties during the period	-	-	-	27 699
Total	-	-	-	31 143

(in UAH thousand)

Note 32. Related party transactions (continued)

Table 32.6. Other commitments granted to and received from related parties in 2018

	Parent company	Jointly controlled companies	Top management	Other related parties
Commitments to lend	-	-	-	597

Note 33. Subsequent events

There have been no other events after the reporting date that may be significant for users of the financial statements. In particular, there have been no:

- Business combinations;
- Termination of business or decision on termination of business;
- Significant acquisition of assets;
- Significant changes in exchange rates or the value of the Bank's assets;
- Court decisions in favor of plaintiffs, which might cause significant financial obligation for the Bank.

10 March 2020

Chairman of the Board /S. Korchynska /

Chief Accountant /N. Derkachenko /