AVANGARD BANK

JOINT-STOCK COMPANY "BANK AVANGARD"

FREE TRANSLATION FROM THE ORIGINAL IN UKRAINIAN

ANNUAL FINANCIAL STATEMENT
JSC «BANK AVANGARD» for 2020
Including the Independent auditor's report

February, 25 2021
Kyiv

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REPORT OF MANAGEMENT BODIES «MANAGEMENT REPORT», which includes CORPORATE MANAGEMENT REPORT OF JSC «BANK AVANGARD»

for 2020

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 2020.

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.

Measures taken during 2020 around the world to combat the spread of COVID-19 lead to the need to limit business activity, which affects the demand for energy and other products of companies, as well as the need for preventive measures to prevent the spread of coronavirus infection.

The financial sector is successfully undergoing a coronary crisis and is properly performing its functions. Banks entered the pandemic period without significant imbalances, sufficiently capitalized and highly liquid. The work on cleaning and increasing the stability of the banking system, carried out since 2015, has yielded an undeniable positive result. For the first time in history, Ukrainian banks did not increase economic instability during the crisis. On the contrary, they have supported business so far and will help restore economic growth in the future by providing loans.

Since the crisis unfolded, most banks have quickly shifted to working online. To some extent, there has been a structural change in the format of the banking sector. Despite the temporary reduction in the number of operating branches, the availability of banking services has not decreased.

The real sector is also recovering from the corona crisis. Although the dynamics of industries is uneven, the corporate segment as a whole proved to be stable. The quality of banks' corporate portfolios did not deteriorate significantly. Conservative lending standards have contributed to the sustainability of borrowers. Timely restructuring and a small share of loans to vulnerable industries ensured the crisis. New lending was suspended only for a short period in the second quarter. However, since September, the financial system has fully restored its financial intermediation function and is gradually increasing its loan portfolio. Loans to enterprises began to grow. Small business lending demonstrates the best dynamics. Low rates and moderate creditworthiness of the corporate sector create the basis for further credit growth.

Consumer lending has slowed significantly as the crisis unfolded, with both market demand and supply declining. In this segment, overdue volumes increased significantly in the second quarter, which is why some banks restructured unsecured consumer loans in significant amounts. The NBU believes that the risks of this segment for banks are high, and therefore confirms the increase in the weight of risk on such bank loans to 150% during 2021.

The development of lending will be further facilitated by lower lending rates. From 2020, the banking system operates with single-rate interest rates on deposits. Inflation remained low during the year and monetary policy stimulated. Today, rates on deposits and assets are the lowest in the history of

the Ukrainian banking sector. While maintaining macroeconomic stability, lending rates will continue to decline. At the same time, the space for reducing deposit rates is very limited.

The Ukrainian banking sector remains highly profitable due to the stability of operating profits and the absence of significant credit losses. Net commission income only temporarily declined at the peak of the crisis, but recovered sharply in the following months. Net interest income increased due to the maintenance of a high interest rate spread - during the year, interest rates on assets and liabilities decreased in parallel. At the same time, narrowing the spread in the medium term is inevitable. This is a key risk for banks' profitability in the coming years. The challenge for banks is to reduce the use of foreign currency. Demand for foreign currency loans has fallen significantly in recent years, and interest rates on foreign currency government securities have been declining. This increases the incentives for banks to more actively depolarize their balance sheets.

Ukraine's economy has proved more resilient to the crisis than expected at the beginning of the COVID-19 pandemic. In the third quarter, real GDP grew by 8.5% versus the second quarter, taking into account the seasonal factor, and was only 3.5% lower than in the same quarter a year ago. The main reasons are the stability of consumer demand and favorable external price conditions.

During 2020, inflation was below the target range. The NBU maintained a soft monetary policy to support the economy and bring inflation to the target. Since June, the discount rate has been at its historically lowest level, while in real terms it has been declining and becoming negative. As a result, interest rates on new loans and deposits continued to decline. The cost of loans for reliable borrowers has already reached an all-time low. The potential for lower interest rates on loans remains even at a constant discount rate. The medium-term goal of the NBU is to keep inflation in the range of 5 ± 1%. The future trajectory of the discount rate will be determined by the balance of inflation risks. The NBU may raise the rate in the event of accelerating inflation due to the recovery of the world and Ukrainian economies. In the event of an intensification of the pandemic and weaker inflationary pressures.

According to experts from the National Bank of Ukraine, according to macroeconomic and monetary reviews, in December, despite the deteriorating epidemic situation and the introduction of lockdown by some countries, the external environment continued to improve due to industrial recovery amid optimism associated with the start of vaccination. In some countries. Prices in world commodity markets, including oil and natural gas, have risen. The latter also rose in price due to significant cooling in the countries of the northern hemisphere.

The recovery in industry has boosted global demand and, consequently, steel and iron ore prices amid limited steel reserves and, as expected, lower ore supplies from Brazil. Grain prices remained high due to high demand, deteriorating yield forecasts in Latin America, and the announcement of export restrictions by some countries. In global financial markets, interest in risky assets, including EM countries, has risen sharply due to the completion of the US election process, expectations of new fiscal stimulus in the US and continued monetary stimulus from the Fed and the ECB. As a result, most EM currencies strengthened against the US dollar.

The Bank has determined that these events are not adjusting for the interim financial statements for 2020. Accordingly, the financial position of the Bank as at 31 December 2020 and the results of operations for the reporting period ended 31 December 2020 have not been adjusted for the effects of events related to COVID-19. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government support at the date of preparation of these financial statements, remain uncertain, which does not allow a sufficient estimate of the extent, duration and severity of these effects and their impact on the Bank's financial condition and performance for future periods.

In view of the above, the Bank's management concludes that the factor of uncertainty in the economic environment in which the Bank operates increases, which leads to a reduction in the planning period and forecasting of key performance indicators. On the horizon of up to 3 months, the Bank sees no reason for significant changes in the main factors of its activities.

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 for the end of the period, the Bank's customer base is formed by business entities (147 customers), non-banking financial institutions (34 customers), individual customers (119 customers) and individual entrepreneurs (6 customers). The Bank serves 739 accounts and 306 customers 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 200 080 thousand at the date of this Business Plan, which corresponds to the regulatory requirements. In 2020, the authorized capital was reduced by reducing the nominal value of shares from UAH 2,460 to UAH 1,640. The authorized capital of the Bank was reduced by UAH 100,040 thousand. By reducing the nominal value of shares in accordance with the decision of the Bank's shareholder dated 25.08.2020 in order to bring the size of the authorized capital of the Bank in accordance with the requirements of Article 31 of the Law of Ukraine "On Banks and Banking".
In the future, the Bank plans to comply with the requirements of the National Bank of Ukraine regarding the amount of authorized and regulatory capital.
Since the beginning of its activity in 2013 and until now, the Bank's strategy has not changed significantly. Business plans and budgets are reviewed at least once a year in order to clarify the main indicators of the financial market, which are a prerequisite for their preparation, to make appropriate changes in the introduction of new products.
During 2020, the National Bank of Ukraine did not apply to the Bank any prohibitions on the restriction of activities that the Bank may perform in accordance with the issued permits and licenses, and there were no restrictions on the ownership of assets.
In the reporting year, the Bank's management did not make decisions on mergers, acquisitions, divisions, spin-offs or transformations of the Bank or on termination of certain activities of the Bank.

During the reporting year:

- No bankruptcy proceedings have been instituted or a resolution on the Bank's reorganization has been issued, no decision has been made by the Bank's higher governing body or a court to terminate or bankrupt the Bank;
- A loan or credit exceeding 25% of the Bank's assets was not received or provided (except for refinancing operations with the NBU).

3. INDICATORS OF THE BANK DEVELOPMENT IN 2020.

The Bank's assets as at the end of December 31, 2020 amounted to UAH 1,940,450 thousand. (as of the end of the day on December 31, 2019 - UAH 1,024,532 thousand).

The quality of assets of JSC "BANK AVANGARD" is good. Highly liquid assets remain the main component of the Bank's assets. Highly liquid assets are mostly represented by IGLBs and NBU certificates of deposit. Funds on NOSTRO accounts are placed in resident banks.

The Bank's liabilities as at the end of December 31, 2020 amounted to UAH 1,697,212 thousand. (2019: UAH 691,368 thousand). The resource base is formed by loans obtained from the NBU through refinancing, customer funds, in particular short-term funds of legal entities and individuals. The portfolio of client funds as of the end of December 31, 2020 amounted to UAH 789,622 thousand. (2019: UAH 394,670 thousand)

As at the end of December 31, 2020, the Bank's Equity amounted to UAH 244,238 thousand (2019: UAH 333,164 thousand). The main component of Equity is the authorized capital of the Bank.

As of the end of December 31, 2020, the regulatory capital of the Bank amounted to UAH 243,480 thousand, including Tier 1 capital in the amount of UAH 209,842 thousand and level II capital in the amount of UAH 33,638 thousand.

During the reporting period, the Bank complied with the economic standards of the National Bank of Ukraine, which at the end of December 31, 2020 had the following meanings:

	Characteristic value	**As at 31 December 2020**	**As at 31 December 2019**
Regulatory capital ratio (N1)	UAH 200 000 thousand	UAH 243 480 thousand	UAH 326 897 thousand
Regulatory capital adequacy ratio (N2)	Not less than 10%	91,12%	237,28%
Short-term liquidity ratio (N6)	Not less than 60%	79,67%	97,53%

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 at 31/12/2020, Bank's LCR is compliant with a statutory value of 100%:

- For all currencies (LCRBB) – 253,9453%
- For foreign currency (LCRIB) – 269,8491%

Following the results of 2020, the Bank's activities are income-generating. The Bank received net profit amounting to UAH 10 260 thousand.

More information is provided in the Annual Financial Report of the Bank for 2020.

Credit-Rating Independent Credit Rating Agency confirmed the Bank's credit rating at uaAAA level on February 16, 2021, the forecast is "stable".

The credit rating report is available at https://avgd.ua/wp-content/uploads/CR_Avangard_ua_22022021.pdf

4. PLANS OF THE BANK FOR 2021 AND FOR LONG-TERM PROSPECTS.

In 2021, due to changes in market conditions, the Bank plans to maintain a portfolio of IGLBs in the amount of ~ UAH 800 million. The Bank plans to raise funds from the National Bank of Ukraine to invest in IGLBs. The remaining assets will consist of funds in other banks and short-term loans 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 assets are highly liquid, as they consist of interbank credit operations, portfolio of domestic government bonds and balances on correspondent accounts in the most reliable banks in Ukraine and foreign banks.

At least 85% of attracted funds of clients are funds of legal entities. This structure of assets will be maintained until certain decisions are made on the introduction of new products in the coming years. In 2021-2023, the Bank plans to adhere to the same structure and quality of the Bank's assets as in previous periods.

To interest customers and promote the Bank's services, it is planned to improve all sales channels, including improving the Bank's website, information work (analytical reports, reviews, legal opinions and recommendations to customers, etc.), mechanisms to attract new customers to service the Bank and optimize operating procedures, which must meet the requirements of the time in terms of speed and ease of conclusion of transactions and reliability of calculations.

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

High profitability (RoA, RoE) and relatively low operating efficiency (Cost-to-Income Ratio) compared to the industry average confirms the economic feasibility of the concept of the bank and its high manufacturability.

At the same time, the Bank is dependent on interest rates and changes in exchange rates. Therefore, a promising area of work is the introduction of new products with an emphasis on increasing the share of commission income in the Bank's income structure, secured guarantees, short-term overdrafts, currency forwards, NDF, FX SWAP transactions with customers, attracting large companies interested in the Bank's services, development of transactional business.

To interest customers and promote the Bank's services, it is planned to improve all sales channels, including improving the Bank's website, information work (analytical reports, reviews, legal opinions and recommendations to customers, etc.), mechanisms for attracting new customers to service the Bank and optimizing operating procedures. , which must meet the requirements of the time in terms of speed and ease of conclusion of transactions and reliability of calculations.

In the coming years, the Bank plans to expand cooperation with counterparties in Ukraine to establish settlement and blank limits for the Bank in order to expand the range of clients interested in the services of the Treasury Bank.

An important area of work is also the opening of direct correspondent accounts with leading international banks.

In 2020, the Bank confirmed the compliance of its procedures with the requirements of international standards for quality management system ISO 9001 and information security management system ISO 27001. The Bank plans to build a business continuity management system according to international standard ISO 22301 by the end of 2021. In 2021-2022 the Bank will implement in its activities anti-corruption procedures in accordance with the international standard ISO 37001.

The high reliability of the Bank's IT services, located in the De Novo cloud environment and provided with high-speed aggregate communication channels, provides the Bank's customers with uninterrupted secure access to the remote service system and allows for fast settlements. The Bank plans to continue to improve information security and continuity of services, to maintain compliance of banking settlement technologies with the best standards of practice.

The Bank has implemented IBAN for internal and external settlements, plans to strengthen the cryptographic stability of its settlement mechanisms and systems, will work on creating an innovative platform for the development of new products and services. This will be facilitated, among other things, by the introduction of new products for providing, monitoring and auditing information security, continuing the introduction of EDS in the Bank's activities, and expanding the scope of electronic document management.

The Bank's goal is to become absolutely Digital Bank by the end of 2022, as far as the current legislation will allow, while maintaining its own business model. To this end, all operating procedures will be optimized, new software products will be introduced, which will automate all routine procedures, speed up all necessary database checks, perform settlement operations as efficiently as possible to maintain high reliability and high profitability of the Bank.

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

In the long run, the Bank does not plan significant changes in its strategy.

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 the capital and borrowed funds of other banks and clients of the Bank. The authorized capital is over 90% of the Bank's Equity. The high level of capitalization reduces the Bank's sensitivity to risks and provides an opportunity for further development.

During the analyzed period, funds from other banks were raised on an overnight basis and through repo transactions. At the beginning of the current year, the Bank had no interbank borrowings.

At the end of the reporting period, customer funds accounted for more than 45% of the Bank's liabilities. Despite the predominance of funds in current accounts of customers against the background of concentration of liabilities to major creditors, the lack of a regional network, small number of customers and predictability of their cash flows, as well as a significant amount of highly liquid assets, reduce the Bank's sensitivity to liquidity risk.

The Bank's liabilities, which are mainly formed by NBU refinancing loans and funds of economic entities, the small size of the loan portfolio and the structure of its collateral, as well as the high level of capitalization and acceptable level of provisions for active operations reduce the Bank's sensitivity to risks.

Key non-financial resources of the Bank: intellectual capital of the Bank's staff, technological resources. The bank is equipped with premises, office equipment, banking equipment and special technical means to create a security system. The amount of funds invested by the Bank in fixed assets is insignificant.

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 1he 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 2020, 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.

The Bank's shareholder is WESTAL HOLDINGS LTD (Limassol, Republic of Cyprus), which is

The shareholder of the Bank is WESTAL HOLDINGS LTD (location: Evagora Papachristoforou, 18, PETOUSSIS BUILDING, office 101B, 3030, Limassol, Republic of Cyprus), which has a significant stake in the Bank and as at January 1, 2021, it directly owns 100.00% of the authorized capital of the Bank.

Indirectly, the owners of significant participation in the Bank are:

- Legal Entity ICU HOLDINGS LIMITED (Location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands), which indirectly owns: 100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD;

- Legal entity NAREMIUS HOLDINGS LTD (Location: Tortola Pier Park, building 1, 2nd floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands) which indirectly owns: 44,993% stake in the Bank through the legal entity ICU HOLDINGS LIMITED, which indirectly owns: 100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD;

- Legal entity FILTESA HOLDINGS LTD (Location: Tortola Pier Park, building 1, 2nd floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands) which indirectly owns: 45.011% stake in the Bank through legal entity ICU HOLDINGS LIMITED, which indirectly owns: 100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD and

A group of persons with common economic interests, namely:

- Individual Stetsenko Kostyantyn Viktorovych, who indirectly owns 44.993% stake in the Bank through 100% stake in the legal entity NAREMIUS HOLDINGS LTD, which owns 44.993% in the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% in the Bank through 100.00 % stake in the legal entity WESTAL HOLDINGS LTD; and

- Individual Paseniuk Makar Yuriyovych, who indirectly owns 45.011% stake in the Bank through 100% stake in the legal entity FILTESA HOLDINGS LTD, which owns 45.011% in the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100.00% in the Bank through 100.00 % stake in the legal entity WESTAL HOLDINGS LTD.

Holders of significant participation meet the requirements established by the current legislation of Ukraine.

There were no significant changes in the composition of owners during 2020.

The Bank's management does not own the Bank's shares. No decisions were made on the repurchase of own shares.

7.4. THE BANK'S MANAGEMENT SYSTEM.

The supreme governing body of the Bank is the General Meeting of Shareholders. In the period between the General Meeting of Shareholders, the protection of shareholders' rights, as well as control and regulation of the Management Board is carried out by the Supervisory Board of the Bank within its competence.

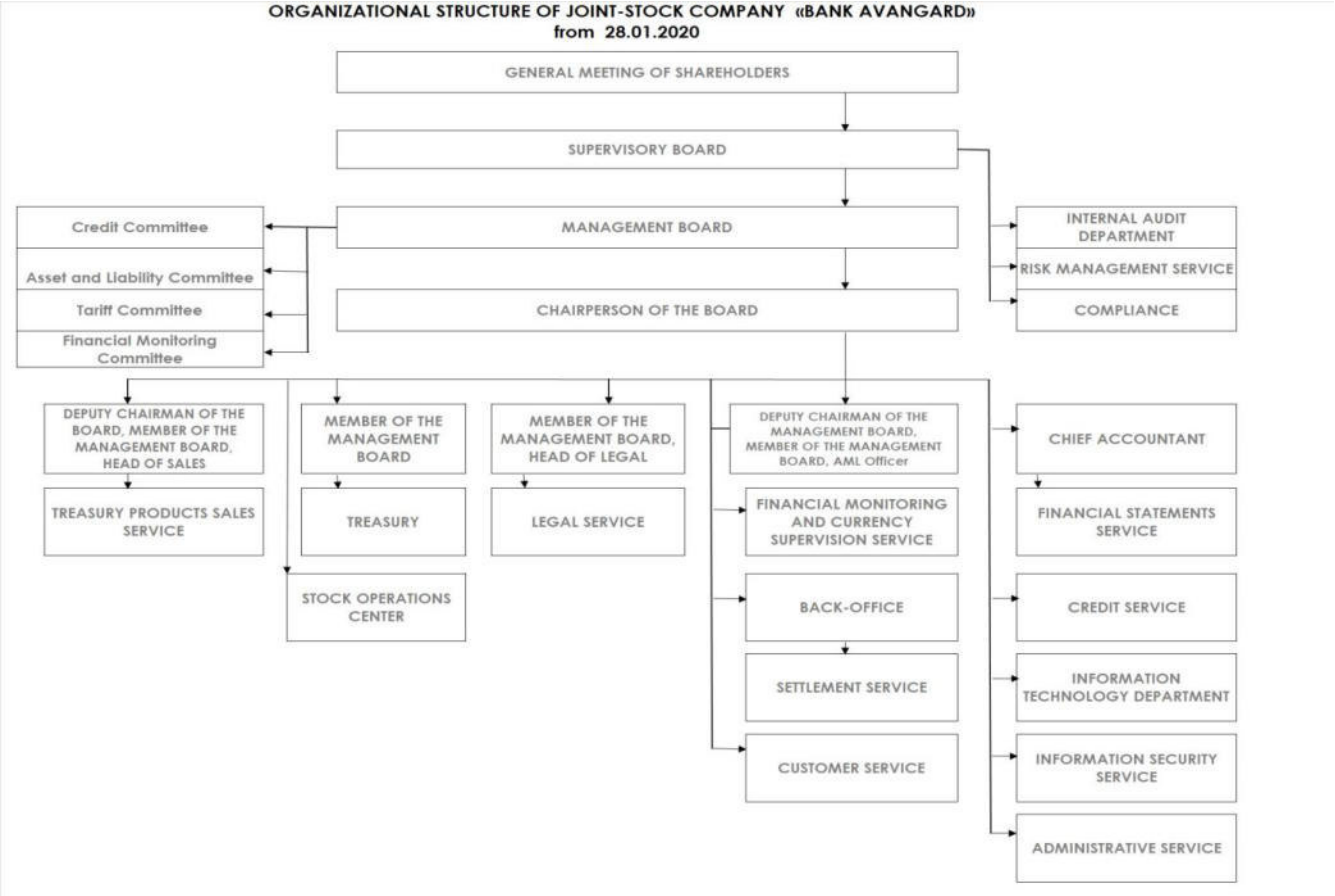
The exclusive competence of the Supervisory Board includes issues of approval of the Regulations and other internal documents of the Bank, which regulate issues related to the activities of the Bank, the approval of which is attributed to the competence of the Supervisory Board; approval of the provisions governing the activities of the Bank, except for those referred to the exclusive competence of the General Meeting, and those that have been transferred to the Management Board of the Bank for approval by the decision of the Supervisory Board; decision-making 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, decision-making on the date of their holding; decision-making on redemption and placement by the Bank of other securities, except for shares; approval of the market value of the property in cases provided by law; election and termination of powers of the Chairperson and members of the Management Board of the Bank, control over the activities of the Management Board; decision-making on removal of the Chairperson of the Management Board of the Bank from the performance of his powers and election of a person who will temporarily exercise the powers of the Chairperson of the Management Board of the Bank; election of the Bank's auditor; creation of the Bank's internal audit service and approval of its regulations, decision on appointment and dismissal of the head of the internal audit service; determination of the external auditor and the terms of the contract with him; establishing the procedure for conducting audits and control over the financial and economic activities of the Bank; making a decision on compensation for losses; resolving issues on the Bank's participation in associations, on the 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 declaring the Bank insolvent as a result of its assumption of obligations or their fulfillment, including as a result of payment of dividends or redemption of shares; decision-making on election of the Bank's property appraiser; decision-making on election (replacement) of the registrar of owners of registered securities of the Bank or the depository of securities and approval of the terms of the agreement to be concluded with him, establishment of the amount of payment for his 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 current activities of the Bank, the formation of funds necessary for the statutory activities of the Bank, and is responsible for the effectiveness of its work in accordance with the principles and procedures established by the Bank's Charter, General Meeting and Supervisory Board. The Management Board of the Bank is accountable to the General Meeting of Shareholders and the Supervisory Board of the Bank and organizes the implementation of their decisions. The Management Board of the Bank decides on the management of the activities of separate structural subdivisions of the Bank, monitors the Bank's compliance with the requirements of the current legislation of Ukraine; organizes operations of storage of cash and valuables of the Bank, accounting and reporting, internal control and other issues of the Bank's activity; considers and approves internal documents of the Bank within its competence, decides on the establishment, management and liquidation of structural units of the Bank, except for those decisions on which are exclusively the competence of the Supervisory Board of the Bank, and exercises other powers under current legislation of Ukraine.

The organizational structure of the Bank is built on the main lines, each of which is subordinated to one of the members of the Management Board of the Bank.

Organizational structure of the Bank



The number of employees of the bank at the end of 2020 is 24 people. The Bank does not plan a significant increase in staff or significant personnel changes. The Bank has no separate structural subdivisions.

Managers and officials of the Bank have sufficient experience in their field of activity, relevant education and proven impeccable business reputation.

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

The sole shareholder of the Bank, the owner of 122,000 units. The ordinary registered shares of the Bank, which make up 100% of the authorized capital of the Bank, are: WESTAL HOLDINGS LTD, a company established and operating in accordance with the legislation of Cyprus, registration number - HE244019 (hereinafter - the "Shareholder").

Pursuant to Article 49 of the Law of Ukraine "On Joint Stock Companies" (hereinafter - the Law), the provisions of Articles 33 - 48 of the Law on the procedure for convening and holding general meetings of shareholders do not apply to a company with one shareholder.

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

During 2020, there were no restrictions on the rights of participation and voting of shareholders at the General Meeting of Shareholders of the Bank.

In 2020, the sole shareholder of the Bank made such decisions:

Date	Agenda	Decisions taken
11.01.2020	1. About the Bank's significant transactions	To allow the Bank to make significant transactions in the amount of up to UAH 350.00 million (inclusive) from 01.01.2020 to 31.12.2020 (inclusive), concerning: purchase / sale and repo transactions of domestic government bonds of Ukraine and / or certificates of deposit National Bank of Ukraine; conducting operations of purchase / sale of foreign currency; raising funds on the interbank market; raising funds from clients, as well as carrying out credit operations that are fully secured by cash coverage and / or pledge of property rights to deposit in the Bank. When conducting active operations, the Bank is obliged to comply with the debt limit of one counterparty (mandatory economic standard H7, set by the National Bank of Ukraine) both during external settlements and during the term of this operation, except for transactions under agreements that provide for advance payments in favor of the Bank. These restrictions do not apply to operations on the transfer of funds between the Bank's own correspondent accounts (NOSTRO accounts) in correspondent banks, the amount (limits) of balances for which is determined by a separate decision to determine the limit of the balance on the correspondent account. Allow the Bank to commit significant transactions in the amount of UAH 1,000.00 million from 01.01.2020 to 31.12.2020 (inclusive). (inclusive), in relation to: conducting active operations related to credit risk with the National Bank of Ukraine, including, but not limited to, transactions of purchase / sale of certificates of deposit of the National Bank of Ukraine.
29.01.2020	1. About making changes and additions to the Bank's internal documents	To amend the Regulations on the Supervisory Board of JOINT-STOCK COMPANY «BANK AVANGARD» and approve it in a new wording. Make changes to the Regulations on the Management Board of JOINT-STOCK COMPANY «BANK AVANGARD» and approve it in a new wording.
06.02.2020	1. About approval of changes to the terms of agreements with members of the Supervisory Board, establishment of the amount of their remuneration, election of a person authorized to sign them	To approve changes to the terms of the agreements concluded with the Chairperson and members of the Supervisory Board of the Bank, as well as the amount of their remuneration. To elect the person who is authorized to sign agreements with the Chairperson and members of the Supervisory Board of the Bank the Chairperson of the Management Board of the Bank Korchynska S.A.
25.02.2020	1. About election of a member of the Supervisory Board.	1. To elect Ruslan Kilmukhametov as a member of the Supervisory Board of JSC «BANK AVANGARD» (shareholder's representative). 2. To approve the terms of the agreement concluded with the member of the Supervisory Board Ruslan

	2. About approval of the terms of the agreement with a member of the Supervisory Board, establishment of the amount of his remuneration, election of a person authorized to sign it.	Kilmukhametov, as well as the amount of his remuneration. 3. To elect the Chairperson of the Management Board of the Bank Korchynska S.A. as a person authorized to sign an agreement with a member of the Supervisory Board Kilmukhametov R.I.
22.04.2020	1. About consideration of the report of the Management Board of the Bank on the results of financial and economic activities of the Bank for 2019 and making a decision based on the results of its consideration. 2. About consideration of the report of the Supervisory Board of the Bank for 2019. and making a decision based on the results of its consideration. 3. About consideration of the conclusions of the external audit of the Bank for 2019. and approval of measures based on the results of their consideration. 4. About approval of the results of activities and the annual report of the Bank for 2019. 5. About the distribution of profits for 2019 6. About making changes and additions to the Bank's internal documents	1. To approve the report of the Board of the JOINT-STOCK COMPANY "BANK AVANGARD" on the results of financial and economic activities of the JOINT-STOCK COMPANY "BANK AVANGARD" for 2019. 2. To approve the report of the Supervisory Board of the JOINT-STOCK COMPANY "BANK AVANGARD" for 2019 3. To approve the report and conclusion of the external auditor of BAKER TILLY UKRAINE LLC based on the results of the audit of the annual financial statements of the JOINT-STOCK COMPANY "BANK AVANGARD" for 2019 without comments and additional measures. 4. To approve the annual report (annual financial statements) of JOINT-STOCK COMPANY "BANK AVANGARD" for 2019. To approve the results of the activity of the JOINT-STOCK COMPANY "BANK AVANGARD" for 2019, namely the profit in the amount of UAH 10,224,676.38. 5. Profit of JOINT-STOCK COMPANY "BANK AVANGARD" according to the results of activities in 2019 in the amount of UAH 10,224,676.38 to be distributed as follows: - to send a part of the profit in the amount of UAH 511,233.82 to the reserve fund of the JOINT-STOCK COMPANY "BANK AVANGARD"; - leave part of the profit in the amount of UAH 9,713,442.56 undistributed. 6. To amend the Regulations on the Supervisory Board of the JOINT-STOCK COMPANY "BANK AVANGARD" and approve it in a new wording. To make changes to the Regulations on the Management Board of the JOINT-STOCK COMPANY "BANK AVANGARD" and approve it in a new wording.
23.04.2020	1. About the commission of significant transactions by the Bank.	1. To authorize the Chairperson of the Board Korchynska S.A. (or in its absence to the Acting Chairperson of the Management Board) to enter into an agreement on amendments to the general loan agreement with the National Bank of Ukraine. 2. Set the maximum possible amount of liabilities under the General Loan Agreement, taking into account the value of the pool of pledged assets for a total amount of UAH 7,000,000,000.00 (seven billion). This decision concerns both the amount of a separate application and the total amount of transactions that may be concluded with the National Bank of Ukraine for

		refinancing operations under the relevant General Loan Agreement and not repaid by the Bank. 3. To provide the Chairperson of the Management Board of the Bank Korchynska S.A. (or in the absence of the Acting Chairperson of the Management Board) the right to delegate the powers specified in this decision to enter into transactions with the National Bank of Ukraine, for which to authorize the issuance of powers of attorney to employees of the Bank for transactions (agreements) related to refinancing loans from National Bank of Ukraine (including overnight), with the right to provide assets (property) of the Bank to ensure the fulfillment of obligations under the relevant refinancing loans in the total amount of UAH 7,000,000,000.00 (seven billion)
16.07.2020	1. About the commission of significant transactions by the Bank.	1. To authorize the Chairperson of the Board Korchynska S.A. (or in the absence of the Acting Chairperson of the Management Board) to enter into an agreement on amendments to the General Agreement on interest rate swap operations with the National Bank of Ukraine. 2. Set the maximum notional amount under the general agreement on interest rate swap operations (total amount of notional interest rate swap transactions under all current and outstanding agreements with the National Bank of Ukraine, taking into account the total amount of assets included in the guarantee fund, within of the relevant general agreement) in the amount of UAH 7,000,000,000.00 (seven billion). 3. To provide the Chairperson of the Management Board of the Bank Korchynska S.A. (or in the absence of the Acting Chairperson of the Management Board) the right to delegate authority to enter into transactions (agreements) with the National Bank of Ukraine, for which to authorize the issuance of powers of attorney to employees of the Bank for transactions (agreements) related to swap transactions interest rate with the National Bank of Ukraine, by signing and submitting applications of the Bank for participation in the interest rate swap auction, notifications of the Bank on concluding interest rate swap agreements with the right to provide assets (property) of the Bank to the guarantee fund to ensure fulfillment of obligations under the relevant general agreement on conducting interest rate swap transactions by signing and submitting applications of the Bank for inclusion of assets (property) that are the subject of collateral / guarantee coverage in the guarantee fund / exclusion of assets (property) that are the subject of collateral / guarantee coverage from the guarantee fund for the total amount , which is UAH 7,000,000,000.00 (seven billion).
25.08.2020	1. About reduction of the authorized capital of the Bank.	1. To reduce the authorized capital of the JOINT-STOCK COMPANY "BANK AVANGARD" by UAH 100,040,000.00 by reducing the nominal value of shares.

	2. About reduction of the nominal value of shares and issue of shares of new nominal value. 3. About amendments to the Bank's Charter and approval of the Bank's Charter in a new wording.	To establish a new amount of the authorized capital of the JOINT-STOCK COMPANY "BANK AVANGARD" in the amount of UAH 200,080,000.00 2. To reduce the nominal value of the share of the JOINT-STOCK COMPANY "BANK AVANGARD" by UAH 820.00 and to establish a new nominal value of one share of the JOINT-STOCK COMPANY "BANK AVANGARD" in the amount of UAH 1,640.00. Issue shares of the JOINT-STOCK COMPANY "BANK AVANGARD" of a new nominal value of one share in the amount of UAH 1,640.00 and approve the Decision on reduction of the new nominal value of shares, which is an appendix to this decision 3. To amend the Bank's Charter and approve the Bank's Charter in a new wording and to authorize the Chairperson of the Management Board S.A. Korchynska to sign the Charter in a new wording
24.12.2020	1. About approval of changes to the terms of agreements with members of the Supervisory Board, establishment of the amount of their remuneration, election of a person authorized to sign them	1. To approve changes to the terms of the agreements concluded with the Chairperson and members of the Supervisory Board of the Bank, as well as the amounts of their remuneration. To elect the person who is authorized to sign agreements with the Chairperson and members of the Supervisory Board of the Bank the Chairperson of the Management Board of the Bank Korchynska S.A.
28.12.2020	1. About the distribution of profits for 2015-2018.	1. Retained earnings of the JOINT-STOCK COMPANY "BANK AVANGARD" according to the results of activities in 2015-2018 to be distributed as follows: - Retained earnings of the JOINT-STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2015 in the amount of UAH 55,520.58 to be sent for payment of dividends to owners of ordinary shares of the JOINT-STOCK COMPANY "BANK AVANGARD"; - Retained earnings of the JOINT-STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2016 in the amount of UAH 16,710.07 to be sent for payment of dividends to owners of ordinary shares of the JOINT-STOCK COMPANY "BANK AVANGARD"; - Retained earnings of the JOINT-STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2017 in the amount of UAH 3,650,551.14 to be sent for payment of dividends to the owners of ordinary shares of the JOINT-STOCK COMPANY "BANK AVANGARD"; - Retained earnings of the JOINT-STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2018 in the amount of UAH 9,942,005.23 to be sent for payment of dividends to owners of ordinary shares of the JOINT-STOCK COMPANY "BANK AVANGARD".

		To instruct the Supervisory Board of the Bank to determine the procedure and term of payment of dividends on ordinary shares and to notify the shareholders of their payment.

7.6. SUPERVISORY BOARD OF THE BANK.

The Supervisory Board of the Bank is a collegial body that protects the rights of shareholders and, within its competence defined by law, the Bank's Articles of Association and the Regulations on the Supervisory Board of the Bank controls and regulates the activities of the Management Board.

The Supervisory Board collectively makes decisions within its competence and ensures the implementation of the decisions of the Supreme Body of the Bank - the General Meeting of Shareholders.

The Supervisory Board reports to the General Meeting of Shareholders on its activities, the general condition of the Bank and the measures taken by it to achieve the goals and strategic goals of the Bank.

The purpose of the Supervisory Board is to represent the interests and protect the rights of Shareholders, ensure the effectiveness of their contributions, promote the Bank's statutory objectives, develop a strategy to increase profitability and competitiveness of the Bank, control the Bank's Management Board. The independence and integrity of the Supervisory Board are necessary prerequisites for fulfilling its role.

As of January 1, 2020, the Supervisory Board of the Bank worked in the following composition:

The Chairperson of the Supervisory Board:	K. V. Stetsenko
Members of the Supervisory Board:	M. Y. Paseniuk
Independent Members of the Supervisory Board:	M. V. Stetsenko V. V. Gladun O.M. Kurinnyy

On February 25, 2020, according to the Decision of the Bank's shareholder dated February 25, 2020, Ruslan Ildarovich Kilmukhametov (shareholder's representative) was elected a member of the Bank's Supervisory Board.

The Chairperson and members of the Supervisory Board independently reviewed the content of the Bank's internal documents regarding their rights and obligations.

The Chairperson and members of the Supervisory Board have an impeccable business reputation, are not members of the Management Board of the Bank and / or members or members of the governing bodies of a legal entity that competes with the activities of the Bank. In addition, when electing members of the Supervisory Board, candidates are carefully analyzed for the absence of conflicts of interest, as well as other factors that, according to current legislation of Ukraine, would prevent them from holding positions on 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 significant business, family or other ties with the Bank, members of the Management Board or a major shareholder of the Bank.

The Chairperson and Members of the Supervisory Board have higher education and significant experience in the financial sector, make informed decisions, which testifies to their competence and efficiency and is confirmed by the results of the Bank's activities during the reporting year.

The organizational form of the Supervisory Board's work is the meetings at which it made decisions in 2020, in accordance with the competence defined by the Bank's Charter and the Regulations on the Supervisory Board.

During 2020, 27 meetings of the Supervisory Board were held, including joint meetings with the Management Board. All meetings of the Supervisory Board that took place are valid.

The Supervisory Board consists of the Chairperson and other members of the Supervisory Board (hereinafter together - members of the Supervisory Board). According to the Bank's Charter, the number of members of the Supervisory Board must be 6 (six). Members of the Supervisory Board may not be 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 in accordance with a civil law agreement. The Supervisory Board must consist of at least one third of the independent members of the Supervisory Board, who must have at least three members. An independent member of the Supervisory Board is a member of the Supervisory Board who is not influenced by others in the decision-making process while performing the duties of an independent member of the Supervisory Board. Requirements for persons who cannot be considered independent members of the Supervisory Board are established by the legislation of Ukraine. At least half of the members of the Supervisory Board must have experience in the banking and / or financial sector. Members of the Supervisory Board must have higher education, meet the requirements of current legislation of Ukraine, as well as qualification requirements for professional suitability and business reputation. The National Bank of Ukraine determines the compliance of professional suitability and business reputation in the manner prescribed by current legislation of Ukraine. Members of the Supervisory Board must meet the qualification requirements throughout their tenure, and independent members of the Supervisory Board must also meet the requirements for their independence.

The members of the Supervisory Board are elected and appointed by the General Meeting of Shareholders of the Bank.

Only an individual can be a member of the Supervisory Board. Members of the Supervisory Board may be independent members of the Supervisory Board, shareholders of the Bank and representatives of the Bank's shareholders. A member of the Supervisory Board may be an individual who has full civil capacity. Election of members of the Supervisory Board is carried out exclusively by cumulative voting, in the manner prescribed by the current legislation of Ukraine, except in cases where the shareholder of the Bank is one person. Nominations of members of the Supervisory Board are submitted to the General Meeting by the Bank's shareholders. When electing members of the Supervisory Board, together with information about each candidate (surname, name, patronymic (name) of the shareholder, the size of the block of shares belonging to him) to the members of the Supervisory Board, the ballot paper shall indicate whether such a candidate is a shareholder, a representative of a shareholder or a group of shareholders (indicating information about 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. Members of the Supervisory Board are elected by the 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 elected in accordance with the law by the General Meeting, the Bank shall convene an

extraordinary General Meeting within three months to elect the remaining members of the Supervisory Board, voting - to elect the entire Supervisory Board of the Bank.

Persons elected as members of the Supervisory Board may be re-elected an unlimited number of times. The powers of a member of the Supervisory Board elected by cumulative voting may be terminated early by a decision of the General Meeting only if the powers of the entire Supervisory Board are terminated simultaneously. In this case, the decision to terminate the powers of the members of the Supervisory Board is made by the General Meeting by a simple majority of votes of shareholders who have registered to participate in the meeting and are the owners of voting shares.

The Chairperson and members of the Supervisory Board of the Bank shall take office after their approval by the National Bank of Ukraine, unless otherwise provided by the current legislation of Ukraine.

A member of the Supervisory Board may not be a member of the Management Board of the Bank at the same time, as well as hold other positions in the Bank under the terms of an employment contract. A member of the Supervisory Board must perform his / her duties personally and may not delegate his / her powers to another person. Members of the Supervisory Board may be remunerated for their activities. The procedure for payment of remuneration to members of the Supervisory Board is established in accordance with the legislation of Ukraine.

Chairperson of the Board

The Chairperson of the Supervisory Board is elected by the members of the Supervisory Board from among them by a simple majority of votes from the number of members of the Supervisory Board. The Supervisory Board has the right to re-elect the Chairperson of the Supervisory Board at any time. A member of the Supervisory Board who was the Chairperson of the Management Board during the previous year may not be elected Chairperson of the Supervisory Board.

Chairperson of the Board:

- organizes the work of the Supervisory Board, convenes its meetings and chairs them;
- approves the agenda of the Supervisory Board meetings;
- organizes keeping minutes of meetings of the Supervisory Board;
- organizes work on creation of committees of the Supervisory Board, nomination of members of the Supervisory Board to the composition of these committees, as well as coordinates the activities, relations of the committees among themselves and with other bodies and officials of the Bank;
- prepares a report and reports to the General Meeting on the activities of the Supervisory Board, the general condition of the Bank and the measures taken by it to achieve the objectives of the Bank;
- maintains constant contacts with other bodies and officials of the Bank;
- exercises other powers provided by the current legislation and the Charter of the Bank and necessary to ensure the work of the Supervisory Board.
- exercises other powers provided by the Articles of Association, the Regulations on the Supervisory Board, current legislation and necessary to ensure the work of the Supervisory Board.

If it is impossible for the Chairperson of the Supervisory Board to perform his / her powers, one of the members of the Supervisory Board shall exercise his / her powers upon its decision.

Members of the Supervisory Board have the right to:

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

2) receive complete, reliable and timely information about the Bank, necessary for the performance of its functions;

3) get acquainted with the Bank's documents, receive their copies, as well as copies of the documents of the Bank's subsidiaries. The above information and documents shall be 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 Chairperson of the Management Board of the Bank;

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

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

Responsibilities of the members of the Supervisory Board:

1) act in the interests of the Bank in good faith and reasonably and do not exceed its authority; The obligation to act in good faith and prudence means the need to show the integrity, prudence and due diligence that a person would hold in such a position in such circumstances.

2) be guided in its activities by the current legislation of Ukraine, the Bank's Charter, these Regulations, and other internal documents of the Bank;

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

4) personally participate in the meetings of the Supervisory Board and in the work of the committees of the Supervisory Board. Inform in advance about the impossibility to participate in the meetings of the Supervisory Board, indicating the reason for absence;

5) adhere to the rules and procedures established by the Bank for concluding transactions in which there is an interest (conflict of interest);

6) comply with all rules established by the Bank related to the regime of circulation, security and storage of information with limited access. Do not disclose confidential and insider information, as well as information that constitutes a bank secret, which became known in connection with the performance of the functions of a member of the Supervisory Board, persons who do not have access to such information, and use it in their interests or interests third parties;

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

8) refrain from actions that may lead to the loss of an independent member of the Supervisory Board of its independence. In case of loss of independence, a member of the Supervisory Board is obliged to notify the Supervisory Board and the Management Board of the Bank in writing within 3 (three) days;

9) timely provide the General Meeting, the Supervisory Board with complete and accurate information on the activities and financial condition of the Bank.

In 2020, the Bank had the following committees of the Supervisory Board, namely:

- Audit Committee composed of:

o Chairman: Mykola Volodymyrovych Stetsenko;

o Members: Paseniuk Makar Yuriyovych, Gladun Viktor Volodymyrovych, Kurinnyy Oleg Mykhailovych

- Nomination and Remuneration Committee:

o Chairman: Mykola Volodymyrovych Stetsenko;

o Members: Stetsenko Kostyantyn Viktorovich, Gladun Victor Volodymyrovych, Kurinnyy Oleg Mykhailovych

- Risk Management Committee composed of:

o Chairman: Mykola Volodymyrovych Stetsenko;

o Members: Paseniuk Makar Yuriyovych, Gladun Viktor Volodymyrovych, Kurinnyy Oleg Mykhailovych

By the decision of the Supervisory Board of the Bank (Minutes №1 of January 28, 2020) the committees of the Supervisory Board of the Bank were liquidated and the powers of the members of such committees were terminated. In particular, the following committees of the Bank's Supervisory Board were liquidated:

- Audit Committee;

- Nomination and Remuneration Committee;

- Risk Management Committee.

During 2020, no meetings of the Bank's Supervisory Board were held.

The Chairperson and members of the Supervisory Board meet the requirements for professional suitability and business reputation established by the Law of Ukraine "On Banks and Banking" and regulations of the National Bank, the Charter and internal documents of the Bank, and independent members of the Supervisory Board also meet the independence requirements. Of Ukraine "On Joint Stock Companies".

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

Remuneration to members of the Supervisory Board is paid in accordance with the decisions of the General Meeting of Shareholders of the Bank (decisions of the sole shareholder), and disclosed in the Annual Financial Statements of the Bank for 2020 (Note 35 "Related party transactions"). With the exception of individual members of the Supervisory Board, members of the Supervisory Board are paid a fixed remuneration.

Based on the results of the verification of compliance of the Chairperson and members of the Supervisory Board with the requirements established by the legislation of Ukraine, carried out by the Bank in December 2020,

1) The Chairperson and members of the Supervisory Board of the Bank have higher education and significant experience in the financial sector, make informed decisions, which indicates their competence and efficiency, which is confirmed by the results of the Bank's activities during the reporting year.

2) The Chairperson and members of the Supervisory Board of the Bank meet the requirements of current legislation of Ukraine, as well as qualification requirements for professional suitability and business reputation throughout their tenure, and independent members of the Supervisory Board also meet the requirements for their independence.

3) The Chairperson and members of the Supervisory Board are not members of the Management Board of the Bank.

4) The Chairperson and members of the Management Board are not members of the Supervisory Board of the Bank.

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

6) The facts of violation of internal documents by the Chairperson and members of the Supervisory Board of the Bank, which led to damage to the Bank or the Bank's clients, have not been revealed.

7) The facts of application of measures of influence by public authorities to the Chairperson and members of the Supervisory Board of the Bank have not been revealed.

8) The facts of the existence, including potential, of a conflict of interest, which would not have been declared and / or for which appropriate measures would not have been taken, have not been revealed.

7.7. MANAGEMENT BOARD OF THE BANK.

The Management Board is a permanent collegial executive body of the Bank, which manages the current activities of the Bank, resolves issues within the competence defined by the Bank's Charter, Regulations on the Management Board and current legislation of Ukraine and is responsible for the Bank's efficiency in accordance with current legislation and the Charter.

The competence of the Management Board includes resolving all issues related to the management of the current activities of the Bank, 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 powers to the competence of the Management Board, except for the powers referred to by the current legislation of Ukraine and the Bank's Charter to the exclusive competence of each of these Bank management bodies.

As of January 1, 2020, the Management Board of the Bank consisted of the following members:

The Chairperson of the Management Board:	Korchynska S. A.
The Deputy Chairperson of the Management Board:	Dvorzhanska I. Y.
The members of the Management Board:	Burovsky A. S. Kokodynskyi V. O.

The organizational form of the Management Board's work is meetings at which it made decisions in 2020, in accordance with the competence defined by the Bank's Charter and the Regulations on the Management Board.

During 2020, 42 meetings of the Management Board were held, including joint meetings with the Supervisory Board of the Bank. All meetings of the Management Board that have taken place are valid.

The Management Board consists of: the Chairperson of the Management Board, the Deputy Chairperson (s) of the Management Board and the members of the Management Board. The Board is headed by the Chairperson of the Board. According to the Bank's charter, the number of members of the Management Board must be at least 5 (five). The decision on the number of members of the Management Board is made by the Supervisory Board of the Bank.

The Chairperson of the Management Board, Deputy Chairperson of the Management Board, other members of the Management Board may be any natural person who has full legal capacity, is not a member of the Supervisory Board, is an employee of the Bank and meets other requirements of current legislation of Ukraine. Members of the Management Board must have a complete higher education in economics, management or law; experience in the banking system in the relevant specialty for at least three years; impeccable business reputation.

The Chairperson of the Management Board, the Deputy Chairperson of the Management Board and other members of the Management Board are elected to office and may be dismissed or suspended from office by decision of the Supervisory Board. The decision to elect the Chairperson of the Management Board, the Deputy Chairperson of the Management Board and other members of the Management Board shall be made by the Supervisory Board in accordance with the procedure established by the Articles of Association and internal documents of the Bank.

The Chairperson of the Management Board takes office after approval by the National Bank of Ukraine. The National Bank of Ukraine determines the compliance of the professional suitability and business reputation of other members of the Management Board or persons who perform their duties for more than one month.

The Board is elected for an indefinite term, unless otherwise determined by the decision on appointment, the Statute or the legislation of Ukraine.

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

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

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

The Chairperson of the Management Board has the right, in particular, but not exclusively:

- act on behalf of the Bank without a power of attorney, including: to represent the interests of the Bank in state institutions, enterprises of all forms of ownership and public organizations, in all law enforcement and regulatory agencies; perform transactions on behalf of the Bank and perform all legally significant actions; enter into and sign agreements, contracts;
- represent the Bank without a power of attorney, including in relations with other business entities and individuals both in Ukraine and abroad;
- issue a power of attorney on behalf of the Bank; distribute responsibilities among the members of the Management Board of the Bank;
- issue orders and issue orders that are binding on all employees of the Bank; to hire and dismiss employees of the Bank, take measures to encourage them and impose disciplinary

sanctions in accordance with current legislation of Ukraine, the Charter and internal documents of the Bank;

- establish forms, systems and procedures for remuneration of the Bank's employees in accordance with the current legislation of Ukraine, approve the staffing of the Bank and staffing of separate divisions, determine the amount of salaries of all employees of the Bank;
- sign a collective agreement on behalf of the Bank; approve job descriptions of the Bank's employees;
- take measures for pre-trial settlement of disputes, sign lawsuits, complaints and all documents related to court hearings of claims and complaints, represent the Bank in the courts with all rights granted by law to the plaintiff, defendant, third party, including fully or partially waive claims, recognize the claim, change the subject of the claim, enter into an amicable agreement, appeal the court decision, submit an executive document for recovery or issue a power of attorney to take appropriate action to another person;
- participate in the meetings of the Supervisory Board with the right of advisory vote;
- perform other functions necessary to ensure the current activities of the Bank.

The Chairperson of the Management Board is personally responsible for the activities of the Bank. The Chairperson of the Management Board may not head the structural divisions of the Bank.

In case of temporary absence of the Chairperson of the Management Board, the acting Chairperson of the Management Board may be assigned to the Deputy Chairperson of the Management Board on the basis of an order of the Chairperson of the Management Board. A person temporarily entrusted with the duties of the Chairperson of the Management Board for the period of his absence has all the powers of the Chairperson of the Management Board of the Bank provided by the legislation of Ukraine, the Charter and Regulations of the Management Board, including acting without a power of attorney on behalf of the Bank's enterprises and organizations.

In the event that the Chairperson of the Management Board is not appointed, the Acting Chairperson of the Management Board shall be appointed by the Supervisory Board.

Members of the Management Board have the right to:

1) receive complete, reliable and timely information about the Bank, necessary for the performance of their functions;

2) independently and as part of the Management Board to resolve issues of operational management of the Bank, which are related to their powers and functional responsibilities;

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

4) initiate the convening of meetings of the Board;

5) provide written comments on the decision of the Board;

6) demand the convening of extraordinary meetings of the Supervisory Board; 7) receive a fair remuneration for the performance of the functions of a member of the Management Board, the amount of which is set by the Supervisory Board.

Responsibilities of the members of the Management Board:

1) act in the interests of the Bank in good faith, reasonably and within the limits of its powers;

2) be guided in its activities by the current legislation of Ukraine, the Charter, these Regulations, other internal documents of the Bank;

3) implement the decisions adopted by the General Meeting and the Supervisory Board;

4) personally participate in the meetings of the Management Board (including remotely), as well as be present at the General Meeting at the invitation of the Chairperson of the Supervisory Board or the person convening them. In case of impossibility to be present at the General Meeting, to notify in advance the person from whom the invitation was received, indicating the reasons for such impossibility;

5) be present at the meetings of the Supervisory Board at the invitation of the Chairperson or a member of the Supervisory Board. In case of impossibility to be present at the meeting of the Supervisory Board, to notify in advance the person from whom the invitation was received, indicating the reasons for such impossibility;

6) be a member of the Bank's credit committees in accordance with the procedures established by the Bank;

7) when concluding transactions with the participation of the Bank, in the commission of which there is an interest or the presence of a conflict of interest, to comply with the legally established rules and requirements for concluding such transactions;

8) comply with the rules established by the Bank related to the regime of circulation, security and storage of information with limited access. Not to disclose bank secrets, confidential and insider information, which became known through the performance of the functions of a member of the Management Board to persons who do not have access to such information, as well as to use it in their own interests or in the interests of others;

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

10) manage certain designated areas of the Bank's activity and direct the activities of the Bank's subordinate structural subdivisions in accordance with the division of responsibilities between the members of the Management Board;

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

The functional responsibilities of each member of the Management Board are determined by the relevant job description, agreement (contract) concluded with him, orders and directives of the Chairperson of the Management Board.

During 2020, the Bank had such committees of the Management Board

- Credit Committee

- Tariff Committee

- Assets and Liabilities Management Committee

- Committee on Financial Monitoring

Composition of committees as of 31.12.2020:

- Credit Committee:

o Chairman: Kokodynskyi V.O.

o Deputy Chairperson of the Committee: Burovsky A.S.

o Members: Korchynska SA, Dvorzhanska I.Y.

- Tariff Committee:

o Chairman: Kokodynskyi V.O.

o Deputy Chairperson of the Committee: Burovsky A.S.

o Members: Korchynska SA, Dvorzhanska I.Y.

- Assets and Liabilities Management Committee:

o Chairman: Kokodynskyi V.O.

o Deputy Chairperson of the Committee: Burovsky A.S.

o Members: Korchynska SA, Dvorzhanska I.Y.

- Financial Monitoring Committee:

o Chairman: Dvorzhanska I.Y.

o Members: Starostenko O.V., Velychko V.A., Tyshchenko S.V., Solovyova K.S., Kokodynskyi V.O., Demkiv M.O.

The Chairperson and members of the Management Board meet the qualification requirements for professional suitability and business reputation established by the Law of Ukraine "On Banks and Banking" and regulations of the National Bank, the Charter and internal documents of the Bank. The collective suitability of the Bank's Management Board corresponds to the size, peculiarities of the Bank's activity, nature and volumes of banking and other financial services, the Bank's risk profile, the Bank's systemic importance and the activities of the banking group of which the Bank is a part.

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

The results verify that the Chairperson and members of the Board of the legislation of Ukraine the requirements made by the Bank in December 2020,

1. The Chairperson and members of the Management Board of the Bank have higher education and significant experience in the financial sector, make informed decisions, which indicates their competence and efficiency, which is confirmed by the results of the Bank's activities during the reporting year.

2. The Chairperson and members of the Management Board of the Bank shall meet the requirements of the current legislation of Ukraine, as well as the qualification requirements for professional suitability and business reputation during the entire period of holding the relevant positions.

3. The Chairperson and members of the Supervisory Board are not members of the Management Board of the Bank.

4. The Chairperson and members of the Management Board are not members of the Supervisory Board of the Bank.

5. The Chairperson and members of the Management Board of the Bank have an impeccable business reputation, are not members or members of the governing bodies of a legal entity that competes with the activities of the Bank.

6. The facts of violation of internal documents by the Chairperson and members of the Management Board of the Bank, which led to damage to the Bank or the Bank's clients, have not been revealed.

7. The facts of application of measures of influence by public authorities to the Chairperson and members of the Management Board were not revealed.

8. The facts of the existence, including potential, of a conflict of interest, which would not have been declared and / or for which appropriate measures would not have been taken, have not been revealed.

9. The facts listed in paragraph 85 of the Regulation on Financial Monitoring regarding the responsible employee for financial monitoring have not been identified.

Remuneration to the members of the Management Board is paid in accordance with the decisions of the Supervisory Board of the Bank, which is disclosed in the Annual Financial Statements of the Bank for 2020 (Note 35 "Related party transactions").

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

7.8. RISK MANAGEMENT SYSTEM OF THE BANK.

The Bank's risk management system is aimed at ensuring the implementation of business goals in accordance with the Bank's development strategy and increasing its value, optimizing the ratio of potential opportunities and risks, capital size and growth rates of the Bank.

The main tools for achieving these goals are the Bank's comprehensive risk management system, which provides for the coordination of actions of all departments within a single strategy for risk management, approved by the Supervisory Board of the Bank. The formation of a comprehensive system is aimed at maximizing the concentration of risk management functions in the Bank, the continuous process of analyzing the situation and environment in which risks arise, and making management decisions to influence the risks themselves and / or the level of vulnerability (exposure) to such risks.

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

The division of functions and powers in risk management covers all organizational levels and divisions of the Bank. The principal structure of the Bank's risk management provides for the 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.

General control over the implementation of risk management in the Bank is carried out by the Supervisory Board of the Bank, the implementation of the risk management system is carried out by the Management Board of the Bank.

The Assets and Liabilities Management Committee determines the optimal balance sheet structure, plans financial performance indicators and monitors their performance, considers the cost of funding sources, controls liquidity risk, bank book interest rate risk and market risks.

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

The Tariff Committee regulates commission revenues and analyzes the competitiveness of current tariffs.

The Financial Monitoring Committee ensures the implementation of the Bank's policy on risk management of money laundering / terrorist financing.

The Risk Management Department and the Head of the Risk Management Department (Chief Risk Manager) carry out a quantitative and qualitative assessment of the risks to which the Bank is exposed or which may arise in the future, monitors the status and amount of risks.

The Bank performs quantitative and qualitative assessment of risks to which the Bank is exposed, or which may arise in the future in its activities, monitors the status and extent of risks, namely:

- credit risk;

- liquidity risk;

- interest rate risk of the banking book;

- market risk;

- operational risk;

- compliance risk;

- other significant risks (reputation, strategic, risk of professional activity in the stock market).

The Internal Audit Department assesses the adequacy of the Bank's risk management systems.

The structural divisions of the Bank carry out operational management of risks associated with their activities, according to the established levels of tolerance to risks and limits, and are responsible for the results of the acceptance of these risks. The revision of the risk management system is improved by the Bank on an ongoing basis and timely updating of the internal regulatory framework is provided in case of changes in legislative, regulatory or regulatory requirements, organizational structure of the Bank and changes in the Bank's risk tolerance.

The Bank has not established an audit commission or there is no auditor.

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

• Internal: small amount of capital; short term of activity; low risk-appetite (significantly reduces profitability during the period of systemic reduction of interest rates in the market); insufficiently established mechanisms for attracting new customers, limited opportunities to open direct correspondent accounts; the Bank's brand is used by custom media to discredit the founders.

• External: political and economic instability; imperfection of the country's judicial system; frequent changes in the legislation regulating banking activities; The artificial deterioration of the Bank's business reputation by the media commissioned 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 built an effective system of internal control (hereinafter - the system of internal control or SVK) and risk management of the issuer, which consists of:

• process integration (introduction of control into processes);

• risk assessment on a regular basis;

• development and implementation of measures, with further evaluation of their effectiveness.

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

• efficiency and effectiveness - is the organization of an ongoing process implemented in the current activities of the Bank and understandable at all levels of the Bank;

• early risk prevention is to ensure effective risk management;

• division of responsibilities, which is to ensure the avoidance of a situation in which one person exercises full control over the function or direction of the Bank (separation of the control function from the Bank's operations);

• comprehensiveness, covering all areas of the Bank's activities;

• timeliness, which is the establishment of the JCC, which provides an opportunity to obtain information about the threat of losses of the Bank before such losses are incurred;

• independence, which consists in the separation of the functions of evaluating the effectiveness of the JCC and the functions of its organization and implementation.

• confidentiality - preventing the disclosure of information to persons who do not have the authority to obtain it.

For effective implementation of the Bank's activities, continuous control is established over:

• compliance with the legislation, regulations and standards of professional activity by the Bank's employees;

• prevention of conflicts of interest;

• ensuring an appropriate level of reliability, which corresponds to the nature and scale of the Bank's operations and minimization of banking risks.

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

• Supervisory Board of the Bank;

• Management Board of the Bank;

• Internal Audit Service;

• Head of Risk Management Service (Chief Risk Manager) and Risk Management Service;

• Head of the Compliance Service (Chief Compliance Manager) and the Compliance Service;

• Chief Accountant and his deputies (if any);

• Heads and employees of the Bank's divisions (Services) who exercise internal control in accordance with the powers defined by the Bank's internal documents (regulations, technological maps, regulations, job descriptions, regulations on structural / separate divisions of the Bank, decisions of collegial bodies and Bank management).

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

• Risk identification, identification and assessment, which includes the identification and analysis of significant risks in order to identify control measures / procedures for risk management.

• Control measures / control procedures - actions necessary to minimize risks (determined by the Bank's internal documents). The Bank's control measures operate at all organizational levels, in the performance of any functions of the Supervisory Board, the Bank's Management Board, managers and employees of the Services.

• Information / reporting and communication - information on identified risks must be documented and transmitted in a timely manner:

o the Supervisory Board and the Management Board of the Bank for making management decisions;

o Subdivisions / authorized employees of the Bank responsible for risk minimization and control to improve the system of internal control and control procedures, staff training, control procedures, drawing conclusions and proposals to the Bank's management to improve control.

• Monitoring, which will allow to assess the quality and effectiveness of the internal control system.

The Bank implements the functioning of the internal control system by:

• control of the Bank's management (Supervisory Board and the Bank's Management Board) over compliance with the legislation of Ukraine and the Bank's internal procedures (compliance);

• distribution of responsibilities in carrying out the Bank's activities;

• control over the functioning of the risk management system;

• control over information security and information exchange;

• introduction of internal control procedures;

• monitoring the effectiveness of the JCC;

• introduction of internal audit procedures.

The organizational structure of the Bank is structured in such a way as to clearly define the duties, powers, functions and responsibilities in the areas of conducting, evaluating and managing internal control provided for in the regulations on the Bank's governing bodies, divisions and job descriptions.

The Management Board of the Bank ensures the development of regulations on all structural divisions of the Bank and submits them for approval to the Supervisory Board of the Bank.

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

Regulations governing the implementation of processes / operations of the Bank, regulations, banking products, as well as descriptions of all processes of the Bank with technological maps determine the distribution of responsibilities during the implementation of processes / operations of the Bank, including on the implementation of internal control.

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

The Bank implements and maintains a process of independent assessment of the adequacy of internal control through the introduction of internal audit procedures.

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

Processes of control over the functioning of the internal control system include periodic review of the results of monitoring the effectiveness of the internal control system (at least once a quarter) by the Bank's management - the Board and the Supervisory Board of the Bank (including but not limited

to risk management and exchange of information, in compliance with the legislation of Ukraine and the internal procedures of the Bank / compliance).

The Bank has the following forms of control:

• **Preliminary control** - is carried out before the Bank's operations;

• **Current control** - is carried out during the Bank's operations and includes control over compliance with legislation, internal documents of the Bank on the implementation of these operations, the correctness of data in the Bank's software, the procedure for deciding on their implementation, control over complete, timely and reliable reflection of operations in accounting and reporting, control over the preservation of the Bank's assets.

• **Further control**, which is carried out after the Bank's operations and consists in checking the validity and correctness of operations, compliance of documents with the established forms and requirements for their execution, compliance of employees with their job descriptions, identification of causes and deficiencies and identification of measures. elimination, control over the implementation of planned performance indicators defined in the Bank's development strategy, its business plans and budget, verification of completeness and reliability of financial, statistical, management, tax and other reporting data generated by the Bank.

• **Internal audit control** - conducting a scheduled audit by the Internal Audit Service to independently assess and control the effectiveness of the internal control system, the implemented system of management and control of banking risks, as well as the quality of process organization, operations by process participants, etc. The Bank has implemented a three-tier system of internal control:

The first level - heads and employees of the Bank's divisions (control over daily operations), including the Bank's Management Board and its profile committees;

The second level - Risk Management Service and Compliance Service (when creating a system for monitoring the effectiveness of internal control systems and verification within the internal control monitoring system)

The third level - Internal Audit Service (periodic inspections of the Bank's activities and assessment of the effectiveness of internal control systems).

7.10. THE QUALITY MANAGEMENT SYSTEM.

The Bank regularly analyzes the Quality Management System (hereinafter referred to as "QMS") in accordance with the requirements of the Regulations on the Quality Management System of JSC "BANK AVANGARD". During the analysis are considered:

- status of actions based on the results of the preliminary QMS analysis;

- changes in external and internal factors for the reporting period related to QMS;

- information on the effectiveness of QMS, taking into account:

• customer satisfaction, which is assessed monthly by compiling customer ratings on various indicators;

• the degree of achievement of QMS goals for the reporting period;

• effectiveness of processes and compliance of banking products, which are based on the conclusions of users on the quality and timeliness of management reporting;

• discrepancies were identified and corrective actions were applied, which were recorded in the reports on the results of further control of the internal control system, incident database;

• results of monitoring and measurement of QMS, which are recorded in the reports on the results of further control of the internal control system;

• results of audits (inspections);

• effectiveness of external service providers

- adequacy of resources to ensure the functioning and development of QMS;

- assessment of the effectiveness of controls determined by the results of non-financial risk assessment;

- results of monthly credit and liquidity risk assessments;

- results of quarterly stress testing of all types of risks;

- opportunities to improve the quality of the Bank's processes and products.

According to the results of the analysis of the Quality Management System for 2020 it is established:

- organization and functioning of QMS JSC "BANK AVANGARD" does not require significant changes;

- availability of QMS resources is at a sufficient level;

- areas of QMS improvement can be identified:

• further introduction of automation of transactions and reduction of processing time of client payment orders;

• spreading the use of electronic document management in banking products;

• introduction of feedback mechanisms for external and internal clients of the Bank's processes;

• introduction of additional controls over the processes in which the realized risk was recorded.

• conducting external training to study the requirements of ISO 19011

7.11. INTERNAL AUDIT SERVICE.

The Internal Audit Service is an independent structural subdivision of the Bank, is a component of the internal control system and is subordinated to and accountable to the Supervisory Board of the Bank. As of December 31, 2020, the division of the Internal Audit Service has 1 employee - the Head of the Internal Audit Service.

In 2020, the Internal Audit Service carried out the following work:

• Conducting inspections in accordance with the approved Audit Plan for 2020;

• Support of external audit to confirm the annual financial statements in accordance with international standards (AF "Baker Tilly Ukraine");

• Preparation of quarterly reports to the Management Board and the Supervisory Board;

• Incident database monitoring;

• Other current work.

In 2020, the Internal Audit Service conducted thematic inspections in accordance with the annual plan approved by the Supervisory Board. All scheduled inspections have been performed.

According to the results of audits in 2020, no recommendations were provided.

The Bank's internal regulations governing internal audit procedures meet the requirements of the NBU regulations, in particular, the Resolution of the National Bank of Ukraine № 311 of May 10, 2016 "On approval of the Regulation on the organization of internal audit in banks of Ukraine." Internal audit procedures are carried out in compliance with the requirements of the Bank's internal documents and the requirements of the NBU regulations.

The functioning of the internal audit system is generally assessed as "good".

7.12. EXTERNAL AUDITOR OF THE BANK.

The decision of the Supervisory Board of the Bank (Minutes №17 of September 28, 2020) selected an external auditor, an audit firm - LLC JSC "Crow Ukraine" to provide services to confirm the financial statements of the Bank for 2020. Regarding the activities of Crow Ukraine LLC:

• total experience of auditing activities; - more than 15 years;

• number of years during which Crow Ukraine LLC provides audit services to the Bank - services are provided for the first time;

• there were no cases of conflict of interest and / or combination of internal auditor functions during the period of cooperation with the Bank.

• there were no penalties applied to Crow Ukraine LLC by the Audit Chamber of Ukraine during the year and the facts of submission of inaccurate reports of the financial institution, confirmed by the audit opinion, revealed by the bodies that carry out state regulation of financial services markets;

• There were no recommendations of the bodies that carry out state regulation of financial services markets regarding the audit opinion.

Crow Ukraine LLC did not provide other audit services to the Bank during the year.

7.13. SIGNIFICANT TRANSACTIONS.

By the decision of the shareholder from 11.01.2020 the Bank is allowed to perform from 01.01.2020 to 31.12.2020 (inclusive) significant transactions each in the amount of up to UAH 350.00 million (inclusive), concerning: conducting purchase / sale transactions and repo of domestic bonds state loan of Ukraine and / or certificates of deposit of the National Bank of Ukraine; conducting operations of purchase / sale of foreign currency; raising funds on the interbank market; raising funds from clients, as well as carrying out credit operations that are fully secured by cash coverage and / or pledge of property rights to deposit in the Bank. When conducting active operations, the Bank is obliged to comply with the debt limit of one counterparty (mandatory economic standard H7, set by the National Bank of Ukraine) both during external settlements and during the term of this operation, except for transactions under agreements that provide for advance payments in favor of the Bank. These restrictions do not apply to operations on the transfer of funds between the Bank's own correspondent accounts (NOSTRO accounts) in correspondent banks, the amount (limits) of

balances for which is determined by a separate decision to determine the limit of the balance on the correspondent account.

The Bank is allowed to perform significant transactions in the amount of up to UAH 1,000.00 million from January 1, 2020 to December 31, 2020 (inclusive). (inclusive), concerning: conducting active operations with the National Bank of Ukraine related to credit risk, including, but not limited to, operations of purchase / sale of certificates of deposit of the National Bank of Ukraine.

By the decision of the shareholder dated 23.04.2020:

1. Authorized Chairperson of the Board S.A. Korchynska. (or in its absence to the Acting Chairperson of the Management Board) to enter into an agreement on amendments to the general loan agreement with the National Bank of Ukraine.

2. The maximum possible amount of liabilities under the General Loan Agreement has been set, taking into account the value of the pool of pledged assets for the total amount of UAH 7,000,000,000.00 (seven billion).

This decision concerns both the amount of a separate application and the total amount of transactions that may be concluded with the National Bank of Ukraine for refinancing operations under the relevant General Loan Agreement and not repaid by the Bank.

Granted to the Chairperson of the Management Board of the Bank Korchynska SA (or in the absence of the Acting Chairperson of the Management Board) the right to delegate the powers specified in this Desicion to enter into transactions with the National Bank of Ukraine, for which to authorize the issuance of powers of attorney to employees of the Bank for transactions related to refinancing loans from the National Bank Of Ukraine (including overnight), with the right to provide assets (property) of the Bank to ensure the fulfillment of obligations under the relevant refinancing loans in the total amount of UAH 7,000,000,000.00 (seven billion).

By the decision of the shareholder dated 16.07.2020:

1. Authorized Chairperson of the Board SA Korchynska. (or in the absence of the Acting Chairperson of the Management Board) to enter into an agreement on amendments to the General Agreement on interest rate swap operations with the National Bank of Ukraine.

2. The maximum notional amount under the general agreement on interest rate swap operations (the total amount of notional interest rate swap transactions under all current and outstanding agreements with the National Bank of Ukraine, taking into account the total amount of assets (property) included in the guarantee fund, within of the relevant general agreement) in the amount of UAH 7,000,000,000.00 (seven billion).

3. Granted to the Chairperson of the Management Board of the Bank Korchynska SA (or in the absence of the Acting Chairperson of the Management Board) the right to delegate authority to enter into transactions (agreements) with the National Bank of Ukraine, for which to authorize the issuance of powers of attorney to employees of the Bank for transactions (agreements) related to swap transactions interest rate with the National Bank of Ukraine, by signing and submitting applications of the Bank for participation in the interest rate swap auction, notifications of the Bank on concluding interest rate swap agreements with the right to provide assets (property) of the Bank to the guarantee fund to ensure fulfillment of obligations under the relevant general agreement on conducting interest rate swap operations by signing and submitting applications of the Bank for inclusion of assets (property) subject to collateral / guarantee coverage in the guarantee fund / exclusion of assets (property) subject to pledge / guarantee coverage from the guarantee fund for the total amount , which is 7,000,000,000.00 (seven billion) hryvnias.

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

During 2020, the Bank carried out operations with related parties on general terms. Related party transactions are primarily resource-based.

The Bank did not conduct any credit transactions with the Bank's shareholders and owners of significant interests in the Bank.

The bank raised a loan from a shareholder to carry out banking activities with a final maturity of the total loan amount in 2025.

Information on related party transactions, balances on related party transactions for 2020, income and expenses on related party transactions for 2020, total amount of loans granted to related parties and repaid by related parties parties during 2020, as well as other rights and obligations under related party transactions as at the end of the reporting period for 2020 are set out in the Annual Financial Statements of the Bank for 2020.

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

The Bank protects the rights of consumers of the Bank's services in accordance with 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".

The Client has the opportunity to apply to the Bank with comments, complaints and suggestions related to the Bank's activities, a statement or request to exercise their rights and legitimate interests and a complaint about their violation through the postal operator or submit it in person appeal.

Each message must be checked and answered.

The appeal may be submitted in writing or orally.

The written appeal must meet the requirements of the Law of Ukraine "On Citizens' Appeals" (hereinafter - the Law). The application must state:

- full Name;

- place of residence of the applicant;

- the essence of the raised question is stated;

- remarks, suggestions, statements or complaints, requests or demands.

The written application must be signed by the applicant (applicants) indicating the date.

A written request shall be sent by mail or transmitted to the Bank in person or through an authorized person whose powers are executed in accordance with the law.

Address for written appeals: 04116, Kyiv, Ukraine, st. Sholudenka 3, office 202

The client can send an application by e-mail to the address: info@avgd.ua or hotline@avgd.ua.

The electronic application, in addition to other requirements established by the Law, must also indicate the e-mail address to which the applicant may be sent a response, or information about other means of communication. The use of an electronic digital signature when sending an electronic application is not required. An application filed without complying with the requirements of the Law shall be returned to the applicant with the relevant explanations no later than ten days from the date of its receipt.

The form of the written request, which is sent by mail / is sent in electronic form, is posted on the official website of the Bank, as well as in a place accessible to the Bank's premises.

An appeal made without complying with the requirements specified in the paragraphs set forth above. returned to the applicant with the relevant explanations no later than ten days from the date of its receipt.

The appeal shall be accompanied by the applicant's decisions or copies of the decisions made on his / her appeal before, as well as other documents necessary for consideration of the appeal, which shall be returned to the applicant after its consideration.

The oral appeal is presented at a personal reception or by telephone through certain contacts of the Bank and is recorded (registered) by an authorized official of the Bank.

When making an oral appeal for further effective and timely consideration, the applicant must provide the following information:

- Full Name;

- Contact details: registration / residence address of the applicant, postal address for correspondence, e-mail address, telephone number, etc.

- Oral description of the problem situation that caused the appeal.

The Client may apply orally (by phone) using any of the following contacts posted on the official website of the Bank (www.avgd.ua) or by phone: +380 (44) 222 01 01, mode of operation: Mon. Fri., 9.00 - 18.00.

An appeal against the appealed decision may be filed with the Bank within one year from the date of its adoption, but not later than one month from the date of acquaintance of the person with the decision. Complaints filed in violation of this deadline will not be considered. The term missed for a good reason may be renewed by the Bank.

The Bank is obliged to objectively and timely consider applications (petitions) submitted to the Bank, verify the facts set forth in them, make decisions in accordance with applicable law and ensure their implementation, notify the applicant of the consequences of consideration of applications (petitions).

An application received by the Bank that meets the requirements of the Law shall be considered by the responsible divisions of the Bank within a period not exceeding one month from the date of its receipt. The answer is sent to the client's mailing address, or another channel specified by the client (by phone, e-mail). If it is impossible to resolve the issues raised in the application within one month, the authorized person of the Bank shall set the necessary deadline for its consideration, which shall be notified to the person who submitted the application. In this case, the total term for resolving the issues raised in the appeal may not exceed forty-five days.

Complaints (notifications) are considered by the Compliance Manager of the Bank - Padalka Antonina Oleksandrivna.

According to the Instruction on the organization of consideration of citizens' appeals, personal reception and access to public information in the National Bank of Ukraine, approved by the NBU Decision of May 14, 2020 №332-рш the client has the right to appeal to the National Bank to resolve issues raised in the appeal including cases where the bank did not provide a response to the appeal within the period prescribed by the legislation of Ukraine for consideration of appeals or the received response did not satisfy the client.

Link to the section "Appeals of citizens" of the official Internet representation of the National Bank: https://bank.gov.ua/ua/contacts-details#section-2

You can get acquainted in detail with the procedure for applying to the National Bank of Ukraine at the link: https://bank.gov.ua/ua/consumer-protection/cp-more

Filing an appeal to the Bank or the National Bank does not deprive the client of the right to go to court in accordance with the legislation of Ukraine to protect their rights and interests.

Officials of the Bank shall be liable for refusal to accept and consider the appeal, violation of the term of consideration of the appeal, other violations of the client's right to appeal in accordance with the legislation of Ukraine.

During 2020, the Bank did not receive any complaints regarding the provision of financial services.

During 2020, there are no lawsuits against the Bank for the provision of financial services.

8. CONCLUSION.

During the reporting year 2020, the Bank operated in accordance with the requirements of the Bank's Corporate Governance Code, current legislation of Ukraine, internal documents of the Bank, conducted profitable activities, followed the strategy set by the Bank's shareholders and achieved targets and goals for 2020.

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

Statement of Financial Position as at 31 December 2020

(in UAH thousand)

	Note	2020	2019
Assets			
Cash and cash equivalents	6	217 601	76 752
Due from other banks	7	4 241	31 701
Loans and advances to customers	8	54 486	103 116
Investments in securities	9	1 655 681	800 225
Derivative finance assets	10	25	-
Current tax receivables		4 995	4 756
Deferred tax assets	27	-	2 155
Fixed and intangible assets	11	1 892	2 543
Right-of-use assets	11	84	797
Other financial assets	12	535	1
Other assets	13	1 910	2 486
Total assets		**1 941 450**	**1 024 532**
Liabilities			
Due to banks	14	859 998	288 212
Due to customers	15	789 622	394 670
Other raised funds	16	34 750	-
Derivative finance liabilities	17	2 153	36
Current tax liabilities		-	-
Deferred tax liabilities	27	524	-
Other financial liabilities	19	1	2
Other liabilities	20	10 095	8 374
Provisions for liabilities	18	69	74
Total liabilities		**1 697 212**	**691 368**
Equity			
Share capital	21	200 080	300 120
Retained earnings (losses)		33 638	23 890
Reserves and other funds		10 612	10 100
Revaluation reserves	22	(92)	(946)
Total equity		**244 238**	**333 164**
Total liabilities		**1 941 450**	**1 024 532**

Authorized for issue and signed by:

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

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

25 February 2021

Statement of Comprehensive Income for 2020

(in UAH thousand)

	Note	2020	2019
Interest income	24	143 548	135 493
Interest expenses	24	(64 812)	(55 091)
Net interest income/(Net interest expense)		**78 736**	**80 402**
Fee and commission income	25	12 989	10 179
Fee and commission expenses	25	(1 617)	(2 045)
Result from transactions with financial instruments, that are recognized at fair value through profit or loss		(8 717)	11 382
Net profit / (loss) from transactions with debt financial instruments that are carried at fair value through other comprehensive income		1 264	8 084
Gains on foreign exchange transactions		7 444	19 404
Gains on foreign currency revaluation		14 485	(16 883)
Net increase/decrease provision for impairment of financial assets		(7 524)	29 754
Net increase/decrease in provisions for liabilities	18	5	28
Other operation income		181	381
Salaries and wages	26	(29 564)	(27 068)
Depreciation and amortization	26	(1 776)	(1 629)
Other administrative and operating expenses	26	(53 394)	(99 520)
Profit/(Loss) before tax		**12 512**	**12 469**
Income tax expenses	27	(2 252)	(2 244)
Net profit for the year		**10 260**	**10 225**
OTHER COMPREHENSIVE INCOME:			
net change in fair value		1 042	885
net change in fair value to be reclassified in profit or loss		-	-
Income tax related to other comprehensive income	27	(188)	(159)
Other comprehensive income after tax		854	726
Total comprehensive income for the year		**11 114**	**10 951**
Net profit/(loss) per an ordinary share (UAH)	28	**84,10**	**83,81**

Authorized for issue and signed by:

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

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

25 February 2021

Statement of Cash Flows for 2020

(in UAH thousand)

	Note	2020	2019
Cash flows from operating activities			
Interest received		118 336	111 501
Interest paid		(65 391)	(54 920)
Fee and commission income		12 870	10 197
Fee and commission expenses		(1 560)	(2 044)
Financial derivative instruments operating result		(5 380)	20 950
Gains from foreign exchange transactions		7 444	19 404
Other operating income		19	381
Staff costs paid		(27 071)	(25 442)
Administrative and other operating expenses paid		(53 711)	(98 456)
Income tax paid		-	-
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**(14 444)**	**(18 429)**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		35 819	(40 060)
Net (increase)/decrease in loans and advances to customers		44 316	105 359
Net (increase)/decrease in other financial assets		(844)	-
Net (increase)/decrease in other assets		10	(5)
Net increase/(decrease) in due to banks		572 534	287 466
Net increase/(decrease) in due to customers		375 627	(191 426)
Net increase /(decrease) in other financial liabilities		19 235	(16 397)
Net cash flows from/(used in) operating activities		**1 032 253**	**126 508**
Purchase of securities at FVTOCI		(11 593 545)	(12 667 164)
Proceeds on disposal of securities at FVTOCI		10 531 226	12 710 876
Purchase of securities at amortized cost		(24 822 000)	(11 456 000)
Proceeds on redemption of securities at amortized cost		25 070 000	11 313 000
Acquisition of fixed assets		(89)	(1 371)
Acquisition of intangible assets		(14)	(34)
Net cash flows from/(used in) investing activities		**(814 422)**	**(100 693)**
Other payments to shareholders, except dividends		(100 040)	-
Receipt of other borrowed funds		34 740	-
Net cash flows from/(used in) financing activities		**(65 300)**	**-**
Effect of changes in official foreign exchange rate of the National Bank of Ukraine on cash and cash equivalents		**10 090**	**(8 159)**
Net increase /(decrease) in cash and cash equivalent		**162 621**	**17 656**

Cash and cash equivalents, at the beginning of the year	**88 207**	**70 551**
Cash and cash equivalents, at the end of the year	**250 828**	**88 207**

Authorized for issue and signed by:

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

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

25 February 2021

Statement of Changed in Equity for 2020

(in UAH thousand)

	Share capital	Reserve fund	Revaluation reserve	Retained earnings	Total
Balance 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 at 31 December 2019	**300 120**	**10 100**	**(946)**	**23 890**	**333 164**
Reduction of share capital	(100 040)	-	-	-	(100 040)
Distribution of previous year's profit	-	511	-	(511)	-
Total comprehensive income	-	-	854	10 260	11 114
Balance as at 31 December 2020	**200 080**	**10 612**	**(92)**	**33 638**	**244 238**

Authorized for issue and signed by:

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

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

25 February 2021

Note 1. Corporate information

The financial statements have been prepared in accordance with International Financial Reporting Standards based on operating results of JOINT-STOCK COMPANY "BANK AVANGARD". The reporting year is 2020.

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: Evagora Papachristoforou, 18, PETOUSSIS BUILDING, office 101B, 3030, Limassol, Republic of Cyprus) became the Shareholder of the Bank with a substantial holding in it. As at 1 January 2021, 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 Chambers, PO 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 HOLDINGS LTD {location: Tortola Pier Park, building 1, 2nd floor, Wickhams Cay 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, building 1, 2nd floor, Wickhams Cay 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 Kostyantyn 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 Paseniuk 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.

Note 1.Corporate information (continued)

On 16/02/2021, 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_22022021.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.

In 2020, 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 2021-2022 the Bank will 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 (147 customers), non-bank financial institutions (34 customers), private customers (119 customers) and individual enterpreneurs (6 customers). The bank maintains 739 accounts and serves 306 customers.

Strategic goal

The Bank was established according to a special concept focused on the use of a solid grounding, in its business segment with maximum operating efficiency by means of price-related competition and high-tech solutions. At this stage the main 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" has been 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 cooperation with Ukrainian counterparties regarding settlement and blank limits.

In 2021, due to changes in the market situation, the Bank plans to hold the government bonds portfolio in the amount of 800 million UAH. The Bank plans to raise funds from the National Bank of Ukraine to invest in IGLBs. 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 c interbank loons, domestic government bonds and cash on correspondent accounts with the most reliable Ukrainian and foreign banks.

Note 1.Corporate information (continued)

At least 85% 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 2021-2023, 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 sales channels, including the improvement of the Bank's website and other information(analytical reports, reviews, legal opinions and recommendations to clients, etc.), mechanisms for attracting 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 Stoc1' Market for conducting professional activities in the securities market as a dealer.

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 2020, 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.

Note 1.Corporate information (continued)

No borrowings or loans exceeding 25% of the Bank's total assets were received or provided (except for the refinancing operations from the NBU).

Performance indicators in 2020

As at 31 December 2020, the Banks's assests amounted to UAH 1 940 450 thousand (as at 31 December 2019 – UAH 1 024 532 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 2020, the Bank's liabilities amounted to UAH 1 697 212 thousand (2019: UAH 691 368 thousand). The resource base is formed by customer assets, including short-term funds of legal entities and individuals. As at 31 December 2020, the portfolio of customer deposits amounted to UAH 789 622 thousand (2019: UAH 394 670 thousand).

As at 31 December 2020, the Bank's equity amounted to UAH 244 238 thousand.(2019: UAH 333 164 thousand). The main component of equity is the Bank's share capital.

As at 31 December 2020, the Bank's regulatory capital amounted to UAH 243 480 thousand, including tier I capital in the amount of UAH 209 842 thousand and tier II capital in the amount of UAH 33 638 thousand.

During 2020, the Bank adhered to the economic standards of the National Bank of Ukraine, which as at 31 December 2020 had the following indicators:

	Characteristic value	As at 31 December 2020	As at 31 December 2019
Regulatory capital ratio (N1)	UAH 200 000 ths.	UAH 243 480 ths.	UAH 326 897 ths.
Regulatory capital adequacy ratio (N2)	Not less than 10%	91,12%	237,28%
Short-term liquidity ratio (N6)	Not less than 60%	79,67%	97,53%

In order to monitor banks' liquidity, the National Bonk 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).

Note 1.Corporate information (continued)

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 31/12/2020, the Bank's LCR is compliant with a statutory value of 100%:

- For all currencies (LCRBB) – 253,9453%
- For foreign currency (LCRIB) – 269,8491%

Following the results of 2020, the Bank's activities are income-generating. The Bank received net profit amounting to UAH 10 260 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 protect^ 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 about holding 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 or the Chairperson and members of the Board of Directors, monitoring the activities of the Board decision-making on removal of the Chairperson of the Board from his/her powers and electing a" person temporarily exercising the powers of the Chairperson 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 financic1 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 b'_ 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.

The executive body of the Bonk 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.

Note 1.Corporate information (continued)

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 24 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;
- 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 measures taken during 2020 around the world to combat the spread of COVID-19 lead to the need to limit business activity, which affects the demand for energy and other products of companies, as well as the need for preventive measures to prevent the spread of coronavirus infection.

The financial sector is successfully undergoing the Coronavirus crisis and is properly performing its functions. Banks entered the pandemic period without significant imbalances, sufficiently capitalized and highly liquid. Work to clean up and increase the resilience of the banking system, carried out since 2015, has yielded an undeniable positive result. For the first time in history, Ukrainian banks did not increase economic instability during the crisis. On the contrary, they have supported business so far and will help restore economic growth in the future by providing loans.

As the crisis unfolded, most banks quickly switched to online. To some extent, there has been a structural change in the format of the banking sector. Despite the temporary reduction in the number of operating branches, the availability of banking services has not decreased.

The real sector is also recovering from the coronavirus crisis. Although the dynamics of industries is uneven, the corporate segment as a whole proved to be stable. The quality of banks' corporate portfolios did not deteriorate significantly. Conservative lending standards have contributed to the sustainability of borrowers. Timely restructuring and a small share of loans to vulnerable industries ensured the smooth passage of the crisis. New lending was suspended only for a short period in the second quarter. However, since September, the financial system has fully restored its financial intermediation function and is gradually increasing its loan portfolio. Loans to enterprises began to grow. Small business lending demonstrates the best dynamics. Low rates and moderate creditworthiness of the corporate sector create the basis for further credit growth.

Consumer lending has slowed significantly as the crisis unfolded, with both market demand and supply declining. In this segment, there was a significant increase in arrears during the second quarter, and therefore some banks restructured unsecured consumer loans in significant amounts. The NBU believes that the risks of this segment for banks are high, and therefore confirms the increase in the risk weight of such bank loans to 150% during 2021.
The development of lending will be further facilitated by lower lending rates. From 2020, the banking system operates with single-rate interest rates on deposits. Inflation remained low during the year and monetary policy stimulated. Today, rates on deposits and assets are the lowest in the history of the Ukrainian banking sector. While maintaining macroeconomic stability, lending rates will continue to decline. At the same time, the space for reducing deposit rates is very limited.

The Ukrainian banking sector remains highly profitable due to the stability of operating profits and the absence of significant credit losses. Net commission income only temporarily declined at the peak of the crisis, but recovered sharply in the following months. Net interest income increased due to the maintenance of a high interest rate spread - during the year, interest rates on assets and liabilities decreased in parallel. At the same time, narrowing the spread in the medium term is inevitable. This is the key risk to the profitability of banks in the coming years.

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

The challenge for banks is to reduce the use of foreign currency. Demand for foreign currency loans has fallen sharply in recent years, and interest rates on foreign currency government securities have declined. This increases the incentives for banks to more actively dedollarize their balance sheets.

Ukraine's economy has proved itself to be more resilient to the crisis than expected at the beginning of the COVID-19 pandemic. In the third quarter, real GDP grew by 8.5% versus the second quarter, taking into account the seasonal factor, and was only 3.5% lower than in the same quarter a year ago. The main reasons are the stability of consumer demand and favorable external price conditions.

During 2020, inflation was below the target range. The NBU maintained a soft monetary policy to support the economy and bring inflation to the target. Since June, the discount rate has been at its historically lowest level, while in real terms it has been declining and becoming negative. As a result, interest rates on new loans and deposits continued to decline. The cost of loans for reliable borrowers has already reached an all-time low. The potential for lower interest rates on loans remains even at a constant discount rate. The NBU's medium-term goal is to keep inflation in the range of 5 ± 1%. The future trajectory of the discount rate will be determined by the balance of inflation risks. The NBU may raise the rate in the event of accelerating inflation due to the recovery of the world and Ukrainian economies. In the event of an increase in the pandemic and lower inflationary pressures.

According to experts of the National Bank of Ukraine, according to the macroeconomic and monetary survey, in December, despite the deteriorating epidemic situation and the introduction of lockdown by some countries, the external environment continued to improve due to industrial recovery amid optimism associated with the start of vaccination. in some countries. Prices in world commodity markets, including oil and natural gas, have risen. The latter also rose in price due to significant cooling in the countries of the northern hemisphere. The recovery in industry has boosted global demand and, consequently, steel and iron ore prices amid limited steel reserves and expected lower ore supplies from Brazil. Grain prices remained high due to high demand, deteriorating yield forecasts in Latin America, and the announcement of export restrictions by some countries. In global financial markets, interest in risky assets, including EM countries, has grown rapidly due to the completion of the US election process, expectations of new fiscal stimulus in the US and continued monetary stimulus from the Fed and the ECB. As a result, most EM currencies strengthened against the US dollar.

The Bank has determined that these events are not corrective for the interim financial statements for 2020. Accordingly, the financial position of the Bank as at 31 December 2020 and the results of operations for the reporting period ended 31 December 2020 have not been adjusted for the effects of events related to COVID-19. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government support at the date of preparation of these financial statements, remain uncertain, which does not allow a sufficient estimate of the extent, duration and severity of these effects and their impact on the Bank's financial condition and performance in future periods.

In view of the above, the Bank's management concludes that the uncertainty of the economic environment in which the Bank operates increases, which reduces the planning and forecasting period of key performance indicators. On the horizon of up to 3 months, the Bank sees no reason for significant changes in the main factors of its activities.

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 ot 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 2020 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 cashflow, 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

Note 4. Summary of significant accounting policies (continued)

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.

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.

Note 4. Summary of significant accounting policies (continued)

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 4.3.1. 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 to 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 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;

Note 4. Summary of significant accounting policies (continued)

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.

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;
- 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 previousl7 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 reserve 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 even! 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. Summary of significant accounting policies (continued)

Note 4.5. Derecognition of financial assets.

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

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.

Note 4. Summary of significant accounting policies (continued)

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 4.9. 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 2020, 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 cos, 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. Summary of significant accounting policies (continued)

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 Policy, non-current tangible assets with an initial cost of up to UAH 6,000.00. on May 23, 2020 were recognized as low-value non-current tangible assets, and from May 23, 2020 the value of such non-current assets increased to UAH 20,000.00.

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 2020 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.

Note 4. Summary of significant accounting policies (continued)

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 2020, 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.

In other cases, the Bank, as a lessee, recognizes the lease asset (lease obligation) at the effective 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 the 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 by 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 the 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 rent payments themselves are divided into principal and interest payments using the effective interest 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. Summary of significant accounting policies (continued)

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, financier instrument price, commodity price, foreign exchange rate, index of prices or rates, credit 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 instruments 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 4.17. 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 expense is determined based on tax laws and current tax rates for the period in which the income is earned.

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.

Note 4. Summary of significant accounting policies (continued)

Deferred taxes are recognized when there is a temporary difference between the carrying amount of the asset or liability in the statement of financial position and its tax base.

Deferred tax liabilities are recognized for all temporary differences that increase the taxable amount.

Deferred tax assets are recognized for all temporary differences that reduce the tax base and unused tax losses carried forward and are recognized only to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilized as tax losses.

Deferred tax assets and liabilities are measured using the balance sheet liability method, using the tax rate that is expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates and tax laws which will be effective as of the reporting date of this period. Deferred tax assets and liabilities are not discounted.

In 2020 the Bank recorded the taxable amount of UAH 12 512 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 expenses 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.

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.

Note 4. Summary of significant accounting policies (continued)

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 a income (expenses);
- the commissions received (paid) after certain actions are recognized as income (loss), after completion of a certain operation.

Commission income (expenses) for services that are provided continuously (settlement and cash service) were accounted for throughout the term of the agreement. The Bank recognizes income (expenses) for one-time services [for example, commissions for currency exchange, provision (consultations)] without reflection in the accounts of accrued income (expenses), if the funds received (paid) in the reporting period in which the services are actually provided (are obtained).

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).*

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

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

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

Note 4. Summary of significant accounting policies (continued)

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

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 2020 were as follows:

840 = USD = 100 = UAH 2827,4600

978 = EUR = 100 = UAH 3473,9600

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.

Note 4. Summary of significant accounting policies (continued)

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 4.23. 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 offset 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, and 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 2020, 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 ore 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:

Note 4. Summary of significant accounting policies (continued)

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.

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 4.2.7. Related party transaction

During 2020, 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

The following are the new standards, amendments and interpretations that have been issued but have not yet become effective as of the date of the Bank's financial statements. The Bank intends to apply these standards, amendments and interpretations, if necessary, from the date of their entry into force.

IFRS 17 Insurance Contracts

In May 2017, the IFRS Board issued IFRS 17 Insurance Contracts, a new comprehensive financial reporting standard for insurance contracts that addresses the recognition and measurement, presentation and disclosure of information. When IFRS 17 becomes effective, it will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life insurance and non-life insurance, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation. There are a few exceptions to the scope. The main purpose of IFRS 17 is to provide a model for accounting for insurance contracts that is more efficient and consistent for insurers. Unlike the requirements of IFRS 4, which are largely based on previous local accounting policies, IFRS 17 provides a comprehensive model for accounting for insurance contracts, covering all relevant aspects of accounting. IFRS 17 is based on a general model, supplemented by the following:

• Certain modifications for direct participation insurance contracts (variable remuneration method).

• Simplified approach (premium-based approach) mainly for short-term contracts.

IFRS 17 is effective for annual periods beginning on or after 1 January 2023, with comparative information required. Early application is permitted provided that the entity also applies IFRS 9 and IFRS 15 on or before the date of first application of IFRS 17. This standard is not applicable to the Bank.

Amendments to IAS 1 - "Classification of Liabilities as Short-Term or Long-Term"

In January 2020, the IFRS Board issued amendments to paragraphs 69-76 of IAS 1, which clarify the requirements for classifying liabilities as short-term or long-term. The amendments explain the following:

• what is meant by the right to defer settlement of obligations;

• the right to defer settlement of liabilities should exist at the end of the reporting period;

• the classification of liabilities is not affected by the likelihood that the entity will exercise its right to defer settlement of the liability;

• the terms of the liability will not affect its classification unless the derivative that is included in the convertible liability is itself an equity instrument.

These amendments are effective for annual periods beginning on or after 1 January 2023 and are applied retrospectively. The Bank is currently analyzing the possible impact of these amendments on the current classification of liabilities.

Amendments to IFRS 3 - "Reference to Conceptual Frameworks"

In May 2020, the IFRS Board issued amendments to IFRS 3 Business Combinations - References to Conceptual Frameworks. The purpose of these amendments is to replace the reference to the Concept of Preparation and Presentation of Financial Statements, issued in 1989, with

the reference to the Conceptual Basis of Presentation of Financial Statements, issued in March 2018, without making significant changes to the requirements of the standard.

The Board also added an exception to the principle of recognition in IFRS 3 to avoid potential gain or loss on day 2 for liabilities and contingent liabilities that would fall within the scope of IAS 37 or IFRIC 21 "Mandatory Payments" if they arise from individual transactions.

At the same time, the Board decided to clarify the existing requirements of IFRS 3 for contingent assets, which will not be affected by the replacement of references to the Financial Reporting Concept.

These amendments are effective for annual periods beginning on or after 1 January 2022 and are applying prospectively.

Amendments to IAS 16 - "Property, Plant and Equipment: Intended Use"

In May 2020, the IFRS Board issued a document "Fixed assets: receipts for their intended use", which prohibits organizations to deduct from the original cost of fixed assets any proceeds from the sale of products produced in the process of delivery of this object to the place location and bringing it into the condition required for its operation in accordance with the requirements of management. Instead, the organization recognizes the proceeds from the sale of such products, as well as the cost of production of these products at profit or loss.

These amendments shall enter into force for annual periods beginning on or after 1 January 2022 and shall apply retrospectively to those items of property, plant and equipment that became available for use at the date of commencement (or after) of the earliest of those presented in financial statements for the period in which the organization first applies these amendments.

It is expected that these amendments will not significantly affect the Bank.

Amendments to IAS 37 - Encumbrance Contracts - Contractual Expenses

In May 2020, the IFRS Board issued amendments to IAS 37, which clarify what costs an entity should consider when assessing whether a contract is onerous or unprofitable.

The amendments provide for the application of an approach based on "costs directly related to the contract". Costs directly related to the contract for the provision of goods or services include both additional costs for the performance of this contract and distributed costs directly related to the performance of the contract. General and administrative expenses are not directly related to the contract and are therefore excluded, except when they are explicitly reimbursable by the contractor under the contract.

These amendments are effective for annual periods beginning on or after 1 January 2022. The Bank will apply these amendments to agreements that have not yet fulfilled all obligations at the date of the beginning of the annual reporting period in which these amendments are applied for the first time.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards, a subsidiary that applies International Financial Reporting Standards for the first time

As part of the process of annual improvements to IFRSs for the period 2018-2020, the IFRS Board issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". Under this amendment, a subsidiary that decides to apply paragraph D16 (a) of IFRS 1 has the right to measure accumulated exchange differences using the amounts recognized in the financial statements of the parent based on the date of transition of the

parent to IFRS. This amendment may also be applied to associates and joint ventures that decide to apply paragraph D16 (a) of IFRS 1.

This amendment shall enter into force for annual periods beginning on or after 1 January 2022. Early use is allowed.

Amendment to IFRS 9 Financial Instruments - Compensation for the 10% Test in the Event of Derecognition of Financial Liabilities

As part of the process of annual improvements to IFRSs for the period 2018-2020, the IFRS Board issued an amendment to IFRS 9. The amendment clarifies the amount of commissions that an entity considers when assessing whether the terms of a new or modified financial liability differ materially. from the terms of the original financial obligation. Such amounts include only those commissions that have been paid or received between a particular creditor and the borrower, including commissions paid or received by the creditor or borrower on behalf of the other party. An entity shall apply this amendment to financial liabilities that have been modified or replaced at the date (or after) of the annual reporting period in which the entity first applies the amendment.

This amendment shall enter into force for annual periods beginning on or after 1 January 2022. Early use is allowed. The Bank shall apply this amendment to financial liabilities that have been modified or replaced at the date (or after) of the annual reporting period in which the amendment first applies.

It is expected that this amendment will not significantly affect the Bank.

Amendment to IAS 41 Agriculture - Taxation in Fair Value Measurement

As part of the process of annual improvements to IFRSs for the period 2018-2020, the IFRS Board issued an amendment to IAS 41 Agriculture. This amendment eliminates the requirement in paragraph 22 of IAS 41 that entities do not include tax-related cash flows when estimating the fair value of assets within the scope of IAS 41.

An entity shall apply this amendment prospectively to the measurement of fair value at or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Early use is allowed.

It is expected that this amendment will not significantly affect the Bank.

NEW STANDARDS, CLARIFICATIONS AND AMENDMENTS TO CURRENT STANDARDS AND CLARIFICATIONS

The Bank has not applied early standards, interpretations or amendments that have been issued but have not yet entered into force.

Amendments to IFRS 3 - Definition of Business

The amendments to IFRS 3 clarify that, in order to be considered a business, an integrated set of activities and assets must include at least a contribution and a fundamentally significant process, which together can significantly contribute to returns. This explains that the business does not necessarily have to include all the contributions and processes needed to create a return. These amendments have not affected the Bank's consolidated financial statements, but may be applicable in the future if the Bank conducts a business combination.

Amendments to IFRS 7, IFRS 9 and IAS 39 - Basic Interest Rate Reform

Amendments to IFRS 7, IFRS 9, IAS 39 Financial Instruments: Recognition and Measurement provide for a number of exemptions that apply to all hedging relationships that are directly affected by the base interest rate reform. Base interest rate reform affects the hedging relationship if its application results in uncertainties about the timing and / or amount of cash flows based on the base interest rate, the hedged item or the hedging instrument. These amendments did not affect the Bank's consolidated financial statements as it does not have hedging relationships based on interest rates.

Amendments to IAS 1 and IAS 8 - Determination of Materiality

The amendments propose a new definition of materiality, according to which "information is material if it can reasonably be expected that its omission, distortion or disguise will affect the decisions of key users of general purpose financial statements made on the basis of those financial statements that provide financial information, a specific reporting organization.

The amendments clarify that materiality will depend on the nature or quantitative importance of the information (taken alone or in combination with other information) in the context of the financial statements as a whole. Distortion of information is material if it can reasonably be expected that it will affect the decisions of key users of the financial statements. These amendments did not affect the consolidated financial statements of XXXX, and it is expected that there will be no impact in the future.

"Conceptual basis for submission of financial statements", issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the provisions of the Conceptual Framework takes precedence over any provision or requirement of the standard. The objectives of the Conceptual Framework are to: assist the IFRS Board in developing standards; assist those preparing financial statements in developing accounting policies when none of the standards govern a particular transaction or event; and assist all parties in understanding and interpreting the standards. This document will affect organizations that develop their accounting policies in accordance with the provisions of the Conceptual Framework.

The revised version of the Conceptual Framework contains several new concepts, updated definitions of assets and liabilities and criteria for their recognition, as well as explains some important provisions. The revision of this document did not affect the consolidated financial statements XXXX.

Amendments to IFRS 16 - "Lease Assignments Related to the COVID-19 Pandemic"

On 28 May 2020, the IFRS Board issued an amendment to IFRS 16 Leases - Lease Assignments Related to the COVID-19 Pandemic. This amendment exempts tenants from applying the requirements of IFRS 16 for accounting for modifications to leases in the event of leases that arise as a direct result of a COVID-19 pandemic. As a practical simplification, the lessee may decide not to analyze whether the lease made by the lessor in connection with the COVID-19 pandemic is a modification of the lease. The lessee making such a decision shall take into account any changes in lease payments due to the lease assignment related to the COVID-19 pandemic, similar to how this change would be accounted for in accordance with IFRS 16 if it was not a modification of the lease.

This amendment applies to annual reporting periods beginning on or after 1 June 2020. Early use is allowed. This amendment did not affect the Bank's consolidated financial statements.

(in UAH thousand)

Note 6. Cash and cash equivalents

	2020	2019
Cash with the National Bank of Ukraine	5 886	24 557
Correspondent accounts at other banks:	244 945	63 650
- Ukraine	244 945	63 650
Provisions for impairment of due from other banks	(33 230)	(11 455)
Total cash and cash equivalents	**217 601**	**76 752**

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

Note 7. Loans to and other amounts due from banks

Table 7.1. Loans to and other amounts due from banks

	2020	2019
Due from other banks carried at amortized cost	-	40 128
Due from other banks carried at fair value through profit/loss	4 241	
Provisions for impairment	-	(8 427)
Total due from other banks less provisions	**4 241**	**31 701**

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

	2020	2019
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 2020

	Minimum credit risk	Total
Due from banks in calculations	4 241	4 241
Total due from other banks	**4 241**	**4 241**

(in UAH thousand)

Note 7. Loans to and other amounts due from banks (continued)

Table 7.4. Loan quality analysis related to due from other banks as at 31 December 2019

	Stage 1	Stage 2	Stage 3	FOCI	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 7.5. Analysis of changed in provisions for impairment of due from other banks carried at amortized cost

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

The amount of the increase of the provision of UAH 8 427 thousand is an integral part of the amount 7 524 thousand in the «Statement of profit and 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

	2020	2019
Loans and advances to customers measured at amortized cost	54 486	109 355
Provision for loan impairment	-	(6 239)
Total loans to customers less provisions	**54 486**	**103 116**

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

	2020	2019
Loans to legal entities	44 506	108 791
Loans to individuals	9 980	564
Provision for loan impairment	-	(6 239)
Total loans to customers less provisions	**54 486**	**103 116**

At the moment the loan portfolio forms about 3 % 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 to customers changed during the analyzed period. The Bank does not have non-performing loans

The structure of loans to legal entities comprises a loan to the Bank's related person in the amount of UAH 266 thousand.

Table 8.3. Analysis of loan quality measured at amortized cost for the reporting period

	Stage 1	Stage 2	Stage 3	Total
Loans to customers carried at amortized cost				
Low credit risk	12 980	-	-	12 980
Medium credit risk	-	41 506	-	41 506
Total loans to customers	12 980	41 506	-	54 486
Provisions for loan impairment	-	-	-	-
Total loans to customers	**12 980**	**41 506**	**-**	**54 486**

(in UAH thousands)

Note 8. Loans and advances to customers (continued)

Table 8.4. Analysis of loan quality measured at amortized cost for the previous 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 to 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 8.5. Analysis of changes in loan less provisions for the reporting period

	Stage 1	Stage 2	Stage 3	Total
Provisions for loan impairment opening balance	(3)	(6 236)	-	(6 239)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Other changes (increase/decrease)	3	6 236		6 239
Provisions for loan impairment closing balance	-	-	-	-

The amount of the decrease of the provision of UAH 6 239 thousand is an integral part of the amount UAH 7 524 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	63 689	39 427	-	103 116
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Other changes (repayment/provision)	(50 709)	2 079	-	(48 630)
Gross loan closing balance	**12 980**	**41 506**	**-**	**54 486**

(in UAH thousand)

Note 8. Loans and advances to customers (continued)

Table 8.7 Loans structure by types of economic activities

	2020		2019	
	Amount	**%**	**Amount**	**%**
Health care	-	-	15 900	15
Other support activities in the field of transport	-	-	16	-
Gas trading through local pipelines	-	-	4	-
Wholesale trade, except for motor vehicles and motorcycles	3 000	7		
Construction	-	-	29 763	27
Real estate activities	41 506	93		
Food production	-	-	63 108	58
Total loans and advances to customers except for provisions	**44 506**	**100**	**108 791**	**100**

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	-	-	-
Loans secured by:	44 506	9 980	54 486
- Cash collateral	3 000	-	3 000
- Securities	-	-	-
- Real estate	41 506	9 980	51 486
-including residential housing	-	7 419	7 419
- Other assets	-	-	-
Total loans and advances to customers except for provisions	**44 506**	**9 980**	**54 486**

Table 8.9. Information on loans within the type of collateral as at 31 December 2019

	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**

(in UAH thousands)

Note 8. Loans and advances to customers (continued)

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 31 December 2020

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	44 506	44 506	-
Loans to individuals	9 980	9 980	-
Total loans	**54 486**	**54 486**	**-**

Table 8.11. Impact of collateral value on loan quality as at 31 December 2019

	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**

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.

Note 9. Investments in securities

Table 9.1 Investment in securities

	2020	2019
Securities carried at amortized cost	85 011	333 420
Securities carried at fair value through other comprehensive income	1 570 670	466 805
Total securities	**1 655 681**	**800 225**

Table 9.2 Investment in securities carried at amortized cost

	2020	2019
Debt securities:	85 011	333 420
Deposit securities of the National Bank of Ukraine	85 011	333 420
Total securities	**85 011**	**333 420**

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 12 thousand as at 31 December 2020.

(in UAH thousand)

Note 9. Investments in securities (continued)

Table 9.3 Securities carried at fair value through other comprehensive income

	2020	2019
Debt securities:	1 570 670	466 805
Government bonds	1 570 670	466 805
Total securities	**1 570 670**	**466 805**

Government bonds are carried at fair value through other comprehensive income and comprise accrued interest accrued in the amount of UAH 42 775 thousand as at 31 December 2020.

Table 9.4. Loan quality analysis related to investments in securities carried at amortized cost as at 31 December 2020

	Stage 1	Stage 2	Stage 3	Total
Investments in securities carried at amortized cost				
Minimum credit risk	85 011	-	-	85 011
Low credit risk	-	-	-	-
Total investments in securities	85 011	-	-	85 011
Provisions for impairment	-	-	-	-
Total debt securities	**85 011**	**-**	**-**	**85 011**

Table 9.5. Loan quality analysis related to investments in securities carried at fair value through other comprehensive income as at 31 December 2020

	Stage 1	Stage 2	Stage 3	Total
Investments in securities carried at amortized cost				
Minimum credit risk	1 312 124	-	-	1 312 124
Low credit risk	258 546	-	-	258 546
Total investments in securities	1 570 670	-	-	1 570 670
Provisions for impairment	-	-	-	-
Total debt securities	**1 570 670**	**-**	**-**	**1 570 670**

(in UAH thousand)

Note 9. Investments in securities (continued)

Table 9.6. 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 securities carried at amortized cost				
Minimum credit risk	333 420	-	-	333 420
Low credit risk	-	-	-	-
Total investments in securities	333 420	-	-	333 420
Provision for impairment	-	-	-	-
Total debt securities	**333 420**	**-**	**-**	**333 420**

Table 9.7. 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 securities carried at amortized cost				
Minimum credit risk	449 464	-	-	449 464
Low credit risk	17 341	-	-	17 341
Total investments in securities	466 805	-	-	466 805
Provision for impairment	-	-	-	-
Total debt securities	**466 805**	**-**	**-**	**466 805**

Note 10. Derivative financial assets

Table 10.1. Financial assets that are recognized at fair value through profit and loss	**2020**	**2019**
Assets under forward agreements	22	
Assets under future agreements	3	
Assets under contracts under terms of SWAP	-	
Total financial assets that are recognized at fair value through profit or loss	**25**	

Note 11. Fixed and intangible assets.

As at 31 December 2020, 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 lease	Total
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 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)
Additions	77	-	8	-	950	1 035
Capital investments into fixed completion and intangible assets improvement	3	-	-	14	-	17
Disposals	-	-	-	-	(1 625)	(1 625)
Accumulated depreciation written-off upon disposal	-	-	-	-	828	828
Amortization charges	(409)	(25)	(8)	(311)	(866)	(1 619)
Carrying amount as at 31 December 2020	**991**	**51**	**-**	**850**	**84**	**1 976**
Historical cost	2 729	355	948	2 381	950	7 363
Depreciation	(1 738)	(304)	(948)	(1 531)	(866)	(5 387)

(in UAH thousand)

Note 12. Other financial assets

Note 12.1. Other financial assets

	2020	2019
Accounts receivable on foreign currency transactions	844	-
Income for services accrued	106	2
Provisions for other financial assets impairment	(415)	(1)
Total other financial assets less provisions	**535**	**1**

Table 12.2. Analysis of changes in provisions for other financial assets impairment

	Prepayments for services	Total
Opening balance:	**(1)**	**(1)**
(Increase)/decrease of the provisions during the period	(414)	(414)
Closing balance	**(415)**	**(415)**

Note 13. Other assets

Note 13.1. Other assets

	2020	2019
Deferred expenses	1 907	2 473
Other	3	13
Provisions for other assets	-	-
Total other assets less provisions	**1 910**	**2 486**

Note 14. Due to banks

	2020	2019
Funds received from the National Bank of Ukraine	859 998	-
Sale and repurchase agreements with other banks	-	240 823
Loans received, short-term	-	47 389
Total due to banks	**859 998**	**288 212**

(in UAH thousand)

Note 15. Due to customers

Table 15.1 Due to customers

	2020	2019
State organizations:	**38**	**22**
-currents accounts	38	22
-term deposits	-	-
Other legal entities:	**693 078**	**389 108**
-current accounts	686 194	369 512
-term deposits	6 884	19 596
Private individuals:	**96 506**	**5 540**
-current accounts	96 308	4 392
-term deposits	198	1 148
Total due to customers	**789 622**	**394 670**

Table 15.2 Due to customers allocation by economic activities

	2020		2019	
	amount	**%**	**amount**	**%**
Financial and insurance activities	260 168	32,95	170 663	43,24
Services (financial)	28 640	3,63	116 651	29,56
Information and telecommunications	40	0,01	246	0,06
Trading	97 477	12,34	12 666	3,21
Agriculture and Fishery	89	0,01	288	0,07
Storage facilities and transportation supporting activities	41 679	5,28	13 206	3,35
Mining	159	0,02	186	0,05
Construction	958	0,12	826	0,21
Electricity supply	57 711	7,31	14 116	3,58
Consulting	18 684	2,37	346	0,09
Public organizations	1 151	0,15	1 126	0,29
Production	11 986	1,52	19 069	4,83
Health care	3	0,00	7	0,00
Property transactions	16 411	2,08	14 052	3,56
Private individuals, including non-residents	96 506	12,22	5 587	1,42
Investors-non-residents	157 960	20,00	25 635	6,50
Total customer funds	**789 622**	**100,00**	**394 670**	**100,00**

Note 16. Other funds raised

	2020	2019
Loans received from international and other financial organizations	34 750	-
Total	**34 750**	**-**

Note 17. Derivative financial liabilities

	2020	2019
Liabilities under forward agreements	534	36
Liabilities under futures agreements	19	
Liabilities under contracts under terms of SWAP	1 600	-
Total financial liabilities that are recognized at fair value through profit or loss	**2 153**	**36**

Note 18. Provisions for liabilities

	Loan liabilities	Total
Opening balance	**74**	**74**
Creation and/or decrease (increase) of provisions	(5)	(5)
Closing balance	**69**	**69**

Provisions for liabilities consist of reserves for possible impairment losses on provided financial guarantees with maturity in 2021.

Note 19. Other financial liabilities

	2020	2019
Accounts payable for foreign currency transactions	1	2
Other financial liabilities	-	-
Total	**1**	**2**

Note 20. Other liabilities

	2020	2019
Accounts payable for settlements with employees	9 827	7 334
Accounts payable for taxes and charges apart from income tax	38	10
Accounts payable for customer transactions	10	23
Expenses for telecommunication and operation services	17	19
Accounts payable on the asset from the right of use	90	931
Accounts payable for other accrued expenses	113	57
Total	**10 095**	**8 374**

Note 21. Share capital

(in pcs)

	Number of shares in circulation (pcs.)	Ordinary shares	Preferred shares	Total
Balance as at 1 January 2020	**122 000**	**122 000**		**122 000**
Contribution on newly issued shares (unit shares, stocks)	-	-	–	-
Balance as at 31 December 2020	**122 000**	**122 000**		**122 000**

In 2020, the share capital was reduced by reducing the nominal value of shares from UAH 2,460 to UAH 1,640. The share capital of the Bank was reduced by UAH 100,040 thousand by reducing the nominal value of shares in accordance with the decision of the Bank's shareholder dated 25.08.2020 in order to bring the size of the share capital of the Bank in accordance with the requirements of Article 31 of the Law of Ukraine "On Banks and Banking".

As at 31 December 2020 the share capital amounts to UAH 200 080 thousand. The share capital of the Bank is divided into 122,000 ordinary registered shares. The shares are fully paid. The nominal value of a simple registered share as of December 31, 2020 is UAH 1,640. 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.

According to the decision of the shareholder dated 28.12.2020, retained earnings in the amount

UAH 13,664 thousand for the period 2015-2018 is aimed at paying dividends to owners of ordinary shares of the Bank in 2021.

There were no repurchases of own shares during the reporting period.

(in UAH thousands)

Note 22. Revaluation reserves (other comprehensive income components)

	2020	2019
Revaluation of debt securities in the Bank portfolio:	**(112)**	**(1 153)**
Revaluation changes to fair value	(112)	(1 153)
Income tax related to:	**20**	**207**
Change in reserve for revaluation	20	207
Total revaluation reserves (other comprehensive income)	**(92)**	**(946)**

(in UAH thousand)

Note 23. Analysis of assets and liabilities by maturities

	Note	2020			2019		
		Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
Assets							
Cash and cash equivalents	6	217 601	-	217 601	76 752	-	76 752
Due from other banks	7	4 241	-	4 241	31 701	-	31 701
Loans and advances to customers	8	44 506	9 980	54 486	72 789	30 327	103 116
Investments in securities	9	1 655 681	-	1 655 681	800 225	-	800 225
Derivative financial assets	10	25	-	25	-	-	-
Income tax receivables		4 995	-	4 995	4 756	-	4 756
Deferred tax assets	27	-	-	-	2 155	-	2 155
Fixed assets	11	-	1 892	1 892	-	2 543	2 543
Assets under the operating lease	11	84	-	84	797	-	797
Other financial assets	12	535	-	535	1	-	1
Other assets	13	1 910	-	1 910	1 690	796	2 486
Total assets		**1 929 578**	**11 872**	**1 941 450**	**990 866**	**33 666**	**1 024 532**
Liabilities							
Due to other banks	14	249 998	610 000	859 998	288 212	-	288 212
Due to customers	15	789 622	-	789 622	394 670	-	394 670
Other funds raised	16	34 750	-	34 750	-	-	-
Derivative financial liabilities	17	2 153	-	2 153	36	-	36
Deferred tax liabilities		524	-	524	-	-	-
Other financial liabilities	19	1	-	1	2	-	2
Other liabilities	20	10 095	-	10 095	8 374	-	8 374
Provision for liabilities	18	69	-	69	74	-	74
Total liabilities		**1 087 212**	**610 000**	**1 697 212**	**691 368**	**-**	**691 368**

(in UAH thousand)

Note 24. Interest income and expenses

	2020	2019
INTEREST INCOME CALCULATED USING EFFECTIVE INTEREST RATE		
Interest income on financial assets measured at amortized cost		
Loans to customers	23 529	25 600
Due from other banks	4 401	9 596
Correspondent accounts in other banks	6	38
Total interest income on financial assets measured at amortized cost	**27 936**	**35 234**
Interest income on financial assets measured at fair value through other comprehensive income		
Debt securities	115 612	100 259
Total interest income on financial assets measured at fair value through other comprehensive income	**115 612**	**100 259**
Total interest income measured using effective interest rate	**143 548**	**135 493**
INTEREST EXPENCES CALCULATED USING EFFECTIVE INTEREST RATE		
Interest expenses on financial liabilities measured at amortized cost		
Legal entities term deposits	(2 745)	(3 810)
Due to individual customers	(416)	(1 329)
Banks' deposits	(46 006)	(25 166)
Current accounts	(15 572)	(24 629)
Other raised funds	(10)	-
Operating lease	(63)	(157)
Other	-	-
Total interest expenses measured using effective interest rate	**(64 812)**	**(55 091)**
Net interest income/(expenses)	**78 736**	**80 402**

Comparing to the results of 2019 there was a decrease in net interest.

Note 25. Fee and commission income and expenses

	2020	2019
Fee and commission income		
Settlement and cash transactions	2 978	3 643
Currency market trading	9 879	6 410
Guarantee transactions	126	124
Other	6	2
Total fee and commission income	**12 989**	**10 179**
Fee and commission expenses		
Settlement and cash transactions	(1 589)	(1 991)
Securities trading	(19)	(38)
Other	(9)	(16)
Total fee and commission expenses	**(1 617)**	**(2 045)**
Net fee and commission income/(expense)	**11 372**	**8 134**

Comparing to the results of 2019 there was an increase in net fee and commission income.

(in UAH thousand)

Note 26. Administrative and other operating expenses

Table 26.1 Salaries and wages

	2020	2019
Salaries	(25 691)	(23 886)
Social security contributions	(3 111)	(2 812)
Other benefits	(762)	(370)
Total salaries and wages	**(29 564)**	**(27 068)**

Table 26.2 Depreciation and amortization

	2020	2019
Fixed assets depreciation	(434)	(303)
Software and other intangible assets amortization	(320)	(499)
Leased assets depreciation	(1 022)	(827)
Total depreciation and amortization expenses	**(1 776)**	**(1 629)**

Table 26.3 Other administrative and operating expenses

	2020	2019
Emolument to key management personnel	(44 423)	(90 430)
Fixed and intangible assets maintenance	(1 849)	(1 715)
Operating leasing (rent)	(216)	(278)
Other taxes and mandatory tees, except for income tax	(105)	-
Communication expenses	(2 995)	(2 855)
Audit expenses	(962)	(838)
Costs on data storage services	(796)	(796)
Operating and household services	(725)	(649)
Other expenses	(1 323)	(1 977)
Reserves	-	18
Total administrative and other operating expenses	**(53 394)**	**(99 520)**

Average number of the Bank's employees in 2020 amounted to 24 persons. The structure of staff costs includes:

- salaries and wages amounting to UAH 18 962 thousand;
- social security tax – UAH 3 111 thousand;
- formation of allowance for unused vacations – UAH 2 120 thousand;
- contributions to non-state pensions provisions – UAH 160 thousand;
- costs on voluntary medical insurance of employees – UAH 602 thousand;
- remuneration to key management personnel under contracts – UAH 44 423 thousand.

In 2020, remuneration was paid to members of the Supervisory Board in the amount of UAH 44,283 thousand. (2019: UAH 90,235 thousand), in terms of the following components: variable - UAH 44,052 thousand. (2019: UAH 90,000 thousand), fixed - UAH 231 thousand. (2019: UAH 235 thousand), and members of the Management Board in the amount of UAH 9,586 thousand. (2019: UAH 9,649 thousand): variable - UAH 2,042 thousand. (2019: UAH 2,845 thousand), fixed - UAH 7,544 thousand. (2019: UAH 6,804 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.

(in UAH thousand)

Note 27. Income tax expenses

Table 27.1 Income tax expenses

	2020	2019
Current income tax	239	676
Change of deferred income tax	(2 491)	(2 920)
Income tax, paid from foreign income at the source of payment	-	-
Total income tax expenses	**(2 252)**	**(2 244)**

Table 27.2 Reconciliation of accounting income/loss and taxable income/loss

	2020	2019
Income before tax	12 512	12 469
Theoretical tax liabilities at the relevant tax rate	(2 252)	(2 244)
Expenses not included in the amount of taxable income, but recognized in accounting records aiming at calculation of:	(71)	12
Depreciation and amortization	4	4
Impairment provisions	(75)	8
Accrued expenses	(1)	-
Gains that are not included in taxable income, but are recognized in tax accounting:	5 938	
Gain on disposal of securities	5 938	
Income that is subject to income tax, but is not recognized in the accounting profit/(loss):	(4 049)	2 909
Gain on disposal of securities	(4 049)	2 909
Other gains	673	(1)
Change in deferred income tax	(2 491)	(2 920)
Amount of income tax expenses	**(2 252)**	**(2 244)**

(in UAH thousand)

Note 27. Income tax expenses (continued)

Table 27.3 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2020

	Balance as at 31 December 2019	Recognized in statement of comprehensive income	Recognized in equity	Balance as at 31 December 2020
Tax impact of temporary differences that reduce (increase) the amount of taxation and deferred tax losses for future periods:				
revaluation of assets	208	-	(188)	20
fixed assets	64	(4)	-	60
income from securities sales operations	1 889	(1 889)	-	-
provisions for impairment of assets	(8)	74	-	66
accrued expenses	2	1		3
Others	-	(673)	-	(673)
Net deferred tax asset / (liability)	2 155	(2 491)	(188)	(524)
Deferred tax asset recognized	**2 155**	-	-	-
Deferred tax liability recognized	**-**	**(2 491)**	**(188)**	**(524)**

Table 27.4 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
Tax impact of temporary differences that reduce (increase) the amount of taxation and deferred tax losses for future periods:				
revaluation of assets	367	-	(159)	208
fixed assets	68	(4)	-	64
income from securities sales operations	4 798	(2 909)	-	1 889
provisions for impairment of assets	-	(8)	-	(8)
accrued expenses	-	2		2
Others	1	(1)	-	-
Net deferred tax asset / (liability)	5 234	(2 920)	(159)	2 155
Deferred tax asset recognized	**5 234**	**(2 920)**	**(159)**	**2 155**

(in UAH thousand)

Note 28. Profit/(loss) per one ordinary and preferred share

Table 28.1 Net and adjusted/(loss) per one ordinary and preferred share

	2020	2019
Profit/ (loss)attributable to Bank ordinary shareholders (UAH thousand)	10 260	10 225
Annual profit/(loss) (UAH thousand)	10 260	10 225
Average annual number of ordinary shares outstanding (thousand, pcs)	122	122
Net profit/(loss) per an ordinary share (UAH)	**84,10**	**83,81**
Adjusted net income/(loss) per an ordinary share, UAH	**84,10**	**83,81**

Table 28.2 Calculation of profit/(loss) attributable to the Bank's ordinary and preference shareholders

	2020	2019
Profit/(loss) for the year attributable to Bank's shareholders	10 260	10 225
Retained earnings/(losses) for the year	10 260	10 225
Retains earnings/(losses) for the year attributable to Bank's ordinary shareholders depending on the terms of shares	10 260	10 225
Profit/(loss) attributable to Bank's ordinary shareholders	10 260	10 225

(in UAH thousand)

Note 29. Operating segments

Table 29.1. Income. Expenses and operating segment results for 2020

	Operating segments		Total
	Treasury operations	Other	
Interest income	143 548	-	143 548
Fee and commission income	10 005	2 984	12 989
Gain on disposal from trading securities held at fair value through profit and loss	(8 717)	-	(8 717)
Gain on disposal from trading securities held at fair value through other comprehensive income	1 264	-	1 264
Gains on foreign currency transactions	7 444	-	7 444
Gains on foreign currency transactions	14 485	-	14 485
Other operational income	181	-	181
Total income	**168 210**	**2 984**	**171 194**
Interest expenses	(64 812)	-	(64 812)
Fee and commission expenses	(19)	(1 598)	(1 617)
Net income from impairment of financial assets	(7 524)		(7 524)
Allocations to provision for liabilities	5		5
Staff costs	(29 564)		(29 564)
Depreciation and amortization	-	(1 776)	(1 776)
Other administrative and operating expenses	(8 900)	(44 494)	(53 394)
Total expenses	**(110 814)**	**(47 868)**	**(158 682)**
Income tax expenses	(2 252)		(2 252)

Table 29.2 Assets and liabilities of operating segments for 2020

	Operating segments		Total
	Treasury operations	Other	
Segment assets	1 867 421	74 029	1 941 450
Total assets	**1 867 421**	**74 029**	**1 941 450**
Segment liabilities	1 686 524	10 688	1 697 212
Total liabilities	**1 686 524**	**10 688**	**1 697 212**

(in UAH thousand)

Note 29. Operating segments (continued)

Table 29.3. Income, expenses and operating segment results for 2019

	Operating segment		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 transactions	(16 883)		(16 883)
Other operational income	381		381
Total income	**164 395**	**3 645**	**168 040**
Interest expenses	(55 091)	-	(55 091)
Fee and commission expenses	(38)	(2 007)	(2 045)
Net income from impairment of financial assets	29 754	-	29 754
Allocations to provision for liabilities	28	-	28
Staff costs	(27 068)		(27 068)
Depreciation and amortization	-	(1 629)	(1 629)
Other administrative and operating expenses	(9 090)	(90 430)	(99 520)
Total expenses	**(61 505)**	**(94 066)**	**(155 571)**
Income tax expenses	(2 244)	-	(2 244)

Table 29.4 Assets and liabilities of operating segments for 2019

	Operating segment		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**

Note 30. 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, 2020 the value of the H7 norm was 16,95%.

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.

(in UAH thousand)

Note 30. Financial risk management (continued)

Foreign currency risk

Table 30.1 Foreign currency risk analysis

Currency	As at 31 December 2020			As at 31 December 2019		
	Monetary assets	Monetary liabilities	Net foreign exchange position	Monetary assets	Monetary liabilities	Net foreign exchange position
USD	416 442	435 867	(19 425)	101 070	115 620	(14 550)
EUR	73 397	71 238	2 159	7 509	80	7 429
RUR	1 240	1 138	102	217	0	217
Total	**491 079**	**508 243**	**(17 164)**	**108 796**	**115 700**	**(6 904)**

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 are a subject to daily control of the risk management department and an instrument of foreign currency risk exposure limitation.

(in UAH thousand)

Note 30. Financial risk management (continued)

Table 30.2 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

	2020		2019	
	Impact on profit/ (loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
USD strengthening by 25%	(4 856)	(4 856)	(3 638)	(3 638)
USD weakening by 25%	4 856	4 856	3 638	3 638
EUR strengthening by 25%	540	540	1 857	1 857
EUR weakening by 25%	(540)	(540)	(1 857)	(1 857)
RUR strengthening by 25%	25	25	54	54
RUR weakening 25%	(25)	(25)	(54)	(54)

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 assessmer[4] and monitoring of capital adequacy taking into account all the risks regarding the Bank's continual activities in every direction.

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 30.3 General analysis of interest rate risk in 2020

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
2020						
Total financial assets	1 673 460	41 506	-	9 980	207 623	**1 932 569**
Total financial liabilities	832 638	126 638	-	644 748	82 568	**1 686 592**
Net GAP on interest-bearing assets and liabilities as at 31 December	**840 822**	**(85 132)**	**-**	**(634 768)**	**125 055**	**245 977**

(in UAH thousand)

Note 30. Financial risk management (continued)

Table 30.4 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 30.5 Monitoring of interest rates on financial instruments

(%)

	2020				2019			
	UAH	USD	EUR	Other	UAH	USD	EUR	Other
Assets								
Cash and cash equivalents	0	0	0	0	0	0	0	0
Due from other banks	5,2	0	0	0	12	0	0	0
Loans and advances to customers	17,7	0	8	0	15,5	0	0	0
Investment in securities	12,0	4,6	2,7	0	13,6	4,8	0	0
Other assets	0	0	0	0	0	0	0	0
Liabilities								
Due to other banks	6,0	0,0	0	0	13,4	2,5	0	0
Due to customers	4,6	0,65	0,3	0	8,7	0,7	0,01	0
Other raised funds	0,0	0,00	1	0				
Current accounts	4,6	0,67	0,01	0	8,7	0,7	0,01	0
Term deposits	4,8	0,0	1	0	6,8	1,1	0	0
Other liabilities	0	0	0	0	0	0	0	0

(in UAH thousand)

Note 30. Financial risk management (continued)

Geographic risk

Table 30.6 Financial assets and liabilities geographic concentration analysis for 2020

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	217 601	-	-	217 601
Due from other banks	4 241	-	-	4 241
Loans and advances to customers	54 486	-	-	54 486
Investment in securities	1 655 681	-	-	1 655 681
Derivative financial assets	25	-	-	25
Other financial assets	535	-	-	535
Total financial assets	**1 932 569**	-	-	**1 932 569**
Liabilities				
Due to other banks	859 998	-	-	859 998
Due to customers	626 912	4 750	157 960	789 622
Other raised funds	-	-	34 750	34 750
Derivative financial liabilities	2 153	-	-	2 153
Other financial liabiliies	69	-	-	69
Total financial liabilities	**1 489 132**	**4 750**	**192 710**	**1 686 592**

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

Table 30.7 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	-	-	-	-
Oher 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**

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

(in UAH thousands)

Note 30. Financial risk management (continued)

Liquidity risk

Table 30.8 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2020

	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	217 601	-	-	-	-	217 601
Due from other banks	4 241	-	-	-	-	4 241
Loans and advances to customers	3 000	-	41 506	9 980	-	54 486
Investments in securities	1 655 681	-	-	-	-	1 655 681
Derivatives	25	-	-	-	-	25
Other financial assets	535	-	-	-	-	535
Total financial assets	**1 881 083**	**-**	**41 506**	**9 980**	**-**	**1 932 569**
Liabilities						
Due to other banks	859 998	-	-	-	-	859 998
Due to customers	52 986	118 680	7 958	609 998	-	789 622
Other raised funds	-	-	-	34 750	-	34 750
Derivative financial liabilities	2 153	-	-	-	-	2 153
Other financial liabilities	69	-	-	-	-	69
Total financial liabilities	**915 206**	**118 680**	**7 958**	**644 748**	**-**	**1 686 592**
Net liquidity GAP as at 31 December	**965 877**	**(118 680)**	**33 548**	**(634 768)**	**-**	**245 977**
Total liquidity GAP as at 31 December	**965 877**	**847 197**	**880 745**	**245 977**	**245 977**	

Table 30.9 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 30. Financial risk management (continued)

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;

Note 31. 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 2020	As at 31 December 2019
Core capital		
Actually paid authorized capital stock	200 080	300 120
Reserves and other funds	10 612	10 100
Reduction of core capital		
Intangible assets less amortization	(850)	(1 147)
Capital contributions to intangible assets		-
Core capital (tier I capital)	209 842	309 073
Additional capital		
Provisions for standard liabilities	-	-
Estimated current year profit	10 260	10 225
Uncollected accrued income less provisions	-	(6 066)
Retained earnings from prior years	23 378	13 665
Additional capital (tier II capital)	33 638	17 824
Total regulatory capital	**243 480**	**326 897**

The data in the Table above consider the adjusting entries as at 31/12/2020. 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 2020.

(in UAH thousand)

Note 32. Contingent commitments

Table 32.1. Structure of lending commitments

	31.12.2020	31.12.2019
Lending commitments issued	123 064	177 239
Guarantees issued	3 474	2 910
Provisions for lending commitments	(69)	(74)
Total lending commitments less provisions	**126 469**	**180 075**

Table 32.2. Structure of lending commitments by currencies

	31.12.2020	31.12.2019
UAH	123 064	177 507
EUR	3 405	2 568
Total	**126 469**	**180 075**

As at 31 December 2020 the Bank had no signed agreements of non-cancellable leases and cases pending in courts.

(in UAH thousand)

Note 33. 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 c. 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 2020, securities carried at fair value through other comprehensive income, derivative financial assets and derivative financial liabilities are carried at fair value. In addition, the Bank considers that the value of such highly liquid assets / liabilities as cash and cash equivalents as reflected in the balance sheet as at 31 December 2020; short-term funds raised / placed can be equated to fair value.

Information on financial assets in the balance sheet as at 31/12/2020 stated at fair value is presented below:

		Fair value by various valuation methods			
	Date	**Market quotations (level 1)**	**Valuation method using observable data (level 2)**	**Valuation method using indicators not supported by observable market data (level 3)**	**Total carrying amount**
Cash and cash equivalents	31.12.2020	217 601	-	-	217 601
Securities in the Bank portfolio held at fair value through other comprehensive income	31.12.2020	1 570 670	-	-	1 570 670
Financial assets that are recognized at fair value through profit or loss	31.12.2020	25	-	-	25
Total assets	**-**				**1 941 450**
Financial liabilities that are recognized at fair value through profit or loss	31.12.2020	2 153	-	-	2 153
Total liabiliites	**-**				**1 697 212**

(in UAH thousand)

Note 33. 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:

		Fair value by various valuation methods			
	Date	**Market quotations (level 1)**	**Valuation method using observable data (level 2)**	**Valuation method using indicators not supported by observable market data (level 3)**	**Total carrying amount**
Cash and cash equivalents	31.12.2019	76 752	-	-	76 752
Securities in the Bank portfolio held at fair value through other comprehensive income	31.12.2019	466 805	-	-	466 805
Financial assets that are recognized at fair value through profit or loss	31.12.2019	-	-	-	-
Total assets	**-**	**-**	**-**	**-**	**1 024 532**
Financial liabilities that are recognized at fair value through profit or loss	31.12.2019	36	-	-	36
Total liabilities	**-**	**-**	**-**	**-**	**691 368**

(in UAH thousand)

Note 34. Presentation of financial instruments by valuation categories

Table 34.1. Financial assets by valuation categories for 2020

	Amortized cost	FVOCI	FVTPL	Total
Cash and cash equivalents	-	-	217 601	217 601
Due from other banks:	4 241	-	-	4 241
- Loans to other banks	4 241	-	-	4 241
Loans and advances to customers:	54 486	-	-	54 486
-loans to legal entities	44 506	-	-	44 506
-loans to individuals	9 980	-	-	9 980
Investments in securities	85 011	1 570 670	-	1 655 681
Derivative financial assets	-	-	25	25
Other financial assets:	535	-	-	535
-receivables from foreign currency transactions	430	-	-	430
-income from services accrued	105	-	-	105
Total financial assets	**144 273**	**1 570 670**	**217 626**	**1 932 569**

Table 34.2. Financial assets by valuation categories for 2020

	Amortized cost	FVTPL		Total
		financial liabilities that, at initial recognition, are carried at fair value through profit / loss	financial liabilities held for trade	
Due from other banks	859 998	-	-	859 998
Loans and advances to customers	789 622	-	-	789 622
Derivative financial liabilities	-	2 153	-	2 153
Other raised funds	34 750	-	-	34 750
Other financial liabilities	69	-	-	69
Total financial liabilities	**1 684 439**	**2 153**	**-**	**1 686 592**

Table 34.3. Presentation of financial instruments 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
Derivative financial assets	-	-	-	-
Other financial assets:	1	-	-	1
- income from services accrued	1	-	-	1
Total financial assets	**544 990**	**466 805**	**-**	**1 011 795**

Table 34.4. Financial assets by valuation categories for 2019

	Amortized cost	FVTPL		Total
		financial liabilities that, at initial recognition, are carried at fair value through profit / loss	financial liabilities held for trade	
Due from other banks	288 212	-	-	288 212
Loans and advances to customers	394 670	-	-	394 670
Derivative financial liabilities	-	36	-	36
Other raised funds	-	-	-	-
Total financial liabilities	**682 882**	**36**	**-**	**682 918**

(in UAH thousand)

Note 35. Related party transactions

Table 35.1 Balance of related party transactions for 2020

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 0,1- 13% depending on the currency and product)	157 144	280 104	2 834	272
Other raised funds	34 750	-	-	-

During 2020 the Bank carried out related party transactions on standard terms.

Table 35.2. Income and expenses for related party transactions for 2020

	Parent company	Jointly controlled companies	Top management*	Other related parties
Interest income	-	-	-	740
Interest expenses	(9)	(9 714)	(145)	(13)
Fee and commission income	169	462	31	8
Impairment expenses	-	-	-	6 236
Other operating income	-	1	1	1
Administrative and other expenses	-	-	(56 523)	-
Total	**160**	**(9 251)**	**(56 636)**	**6 972**

***** Includes members of the Management board and Supervisory Board

Table 35.3 Balance of related party transactions for 2019

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contract interest rate 3,5-22% depending on currency and product)	-	-	-	15 901
Provisions for loan debts as at 31 December	-	-	-	(6 236)
Other assets	-	1	-	-
Due to customers (contract interest rate 0,1- 13% 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 35. Related party transactions (continued)

Table 35.4. 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 35.5. Loans granted to and repaid by related parties in 2020

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans repaid by related parties during the period	-	-	-	15 901
Total	**-**	**-**	**-**	**15 901**

Note 36. Subsequent events

After the reporting date there has been a payment of dividends to owners of ordinary shares of the Bank in the amount of UAH 13,664 thousand, according to the decision of the shareholder from 28.12.2020.

The Bank is preparing a Decision on the issue of bonds in 2021 for approval by the Supervisory Board of JSC BANK AVANGARD.

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 obligations for the Bank.

Chairperson of the Board _____ /S. Korchynska/

Chief Accountant _____ /N. Derkachenko/

25 February 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of JSC BANK AVANGARD

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of JSC 'BANK AVANGARD' (the Bank), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, presents fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the Law of Ukraine On Accounting and Financial Reporting in Ukraine and International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code) and ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other matters

The financial statements of the Bank for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on March 10, 2020.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision for loan impairment

The estimation of the provision for loan impairment is a key area of professional judgment of the Bank's management. Identifying of impairment and determination of amount of expected reimbursement include some assumptions and analysis of different factors, including the financial position of borrower, expected future cash flow and fair value of collaterals.

The use of various assumptions may be result of various estimates of the provision for loan impairment. Taking into account the materiality of customer credit balances and a certain level of subjectivity of judgments, we have determined the valuation of the provision for impairment as the key issue of the audit.

Our audit procedures included assessment of methodology used by the Bank to determine the signs of depreciation and calculating the provision for impairment, testing input data and assumption analysis. For provisions for loan impairment with detected individual signs of impairment, we have audited assumptions underlying the basis for detecting impairment and its quantitative assessment, including the analysis of financial indicators of borrowers, forecasts for future cash flows and collateral assessment. For provisions of loan impairment, calculated on collective basis, which have not been demonstrate individual signs of impairment, we analyzed Bank's models and audited relevance and accuracy input data used in this models.

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Other information

Management is responsible for the other information. The other information comprises the Management Report and Corporate governance Report. The other information which we expected to receive after the date of this Auditor`s report is Annual Information on the Issuer of Securities.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Information on the Issuer of Securities, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and The NSSMC.

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

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

Preparing the financial statements, management is responsible for assessment Bank's ability to continue as a going concern, disclosure, if applicable, issues regarding going concern and apply going concern as a basis for accounting, except, if the management plans to liquidate the Bank or discontinue the activity or have not any other real alternatives for it.

Supervisory Board is responsible for overseeing the process of financial reporting of the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Vitaliy Havrysh.

Partner

Registered Auditor #100594



Vitaliy Havrysh.

Kyiv, Ukraine

February 25, 2021