AVANGARD BANK

PUBLIC JOINT-STOCK COMPANY «BANK AVANGARD»

ANNUAL FINANCIAL STATEMENTS 2013

PJSC “BANK AVANGARD”

with audit opinion

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TRANSLATION FROM UKRAINIAN ORIGINAL

INDEPENDENT AUDITOR'S REPORT

To the management of BANK AVANGARD, PJSC

We have audited accompanying financial statements of BANK AVANGARD, PJSC (the Bank hereinafter), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Partner — Gagik Nersesyan

25 March 2014

Kyiv, Ukraine

Registration #14-057/1

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PJSC "BANK AVANGARD"
Balance Sheets
as of December 31, 2013

(UAH'000)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
ASSETS			
Cash and cash equivalents	5	102,093	–
Restricted mandatory reserve balance with the National Bank of Ukraine		1,173	–
Due from other banks	6	116,597	–
Securities available for sale	7	150,878	–
Deferred tax asset		22	–
Property and equipment and intangible assets	8	2,608	–
Other financial assets	9	1	–
Other assets	10	146	–
Total assets		**373,518**	**–**
LIABILITIES			
Due to customers	11	251,234	–
Current income tax liabilities	19	48	–
Other liabilities	12	113	–
Total liabilities		**251,395**	**–**
EQUITY			
Share capital	13	122,000	–
Retained earnings		188	–
Revaluation reserves	14	(65)	–
Total equity		**122,123**	**–**
Total liabilities		**373,518**	**–**

Approved for release and signed by

March 25, 2014

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

Prepared by M.Yu. Dmytrieva, tel.: +38(044) 502 23 40

Chief Accountant **V.S. Chechotkina**

Statement of Profit and Loss and other Comprehensive Income (Income Statement) for the year ended 31 December 2013 PJSC "BANK AVANGARD"

(UAH'000)

	Notes	2013	2012
Interest income	16	4,369	–
Interest expense	16	(10)	–
Net interest income/(Net interest expense)		4,359	–
Fee and commission income	17	11	–
Fee and commission expense	17	(4)	–
Net gain from foreign currencies		14	–
Net gain from sale of securities available for sale		246	–
Allowance for loans impairment	6	(354)	–
Administrative and other operating expenses	18	(4,051)	–
Profit/(loss) before tax		221	–
Income tax expense	19	(33)	–
Profit/(loss) for the year		**188**	**–**
Other comprehensive income:			
Unrealized gain (loss) on available for sale securities	14	(72)	–
Tax effect on other comprehensive income	14	7	–
Net unrealized gain (loss) on available for sale securities, net of tax effect	14	(65)	–
Total comprehensive income for the year		**123**	**–**
Net profit/(loss) per common share, in UAH	20	1.64	–

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

Chief Accountant **V.S. Chechotkina**

PJSC "BANK AVANGARD"
Statement of Changes in Equity
for the year ended 31 December 2013

(UAH'000)

	Notes	Share Capital	Revaluation Reserves	Retained Earnings	Total
Balance as of December 31, 2012		–	–	–	–
Issue of shares:					
Par value	13	**122,000**	–		**122,000**
Total comprehensive income			(65)	188	123
Balance as of December 31, 2013		**122,000**	**(65)**	**188**	**122,123**

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

Chief Accountant _____ **V.S. Chechotkina**

PJSC "BANK AVANGARD"
Statements of Cash Flows
for the year ended 31 December 2013
(direct method)

(UAH'000)

	Notes	2013	2012
Cash from operating activity:			
Interest received		2,718	–
Interest paid		(3)	–
Fees and commissions received		9	–
Fees and commissions paid		(4)	–
Net receipts from securities available for sale		246	–
Net receipts from foreign exchange		14	–
Personnel expenses paid		(1,724)	–
Administrative and other operating expenses paid		(2,078)	–
Cash flows from operational activities before changes in operating assets and liabilities		**(822)**	–
Net (increase)/decrease in operating assets and liabilities			
Due from other banks		(116,000)	–
Restricted mandatory reserve balance with the National Bank of Ukraine		(1,173)	–
Other assets		(146)	–
Due to customers		251,227	–
			–
Net cash flows from operating activities		**133,908**	
Cash flows from investment activities:			
Purchase of securities available for sale	7	(150,249)	–
Purchase of property and equipment	8	(1,451)	–
Purchase of intangible assets	8	(1,293)	–
			–
Net cash flows from/(used in) investment activities		**(152,993)**	
Cash flows from financial activities			–
Issue of common shares	20	122,000	–
Net cash flows from/(used in) financial activities		**122,000**	–
Effect of official exchange rate on cash and cash equivalents		–	–

Net increase (decrease) in cash and cash equivalents	**102,093**	–
Cash and cash equivalents as of the beginning of the year	–	–
Cash and cash equivalents as of the end of the year	**102,093**	–

Approved for release and signed by

March 25, 2014

Prepared by M.Yu. Dmytrieva, tel.: +38(044) 502 23 40

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

Chief Accountant **V.S. Chechotkina**

Note 1. General Information on the Bank's Activities

These Financial Statements have been prepared in compliance with the International Financial Reporting Standards based on the performance of PUBLIC JOINT STOCK COMPANY "BANK AVANGARD". These financial statements are prepared as of 31 December 2013 and for the year then ended.

PUBLIC JOINT STOCK COMPANY "BANK AVANGARD" (the 'Bank') was entered to the State Bank Register of Ukraine on July 5, 2013 under No. 346. The Bank is a resident of Ukraine located at 3, Sholudenka St., 04116, Kyiv.

The Bank falls into IVth bank group in terms of its net assets as on January 1, 2014.

The Bank is a member of the Deposit Guarantee Fund, 'Ukrainian Stock Exchange Traders' Association, which is a self-regulating organization of professional stock market players.

The Bank has correspondent relationships with major banks of Ukraine and can make payments through major international banks in all principal currencies of the world using SWIFT international payments system. Starting from December 2013, the Bank has started cooperation with UKRAINIAN CREDIT BUREAU on the matters related to transferring information on credit histories of borrowers.

As on January 1, 2014 the major shareholder of the Bank was SECTOR-T LLC, which owned 99.99% shares (direct interest).

On 21.02.2014 Credit Rating, an independent rating agency, assigned the **Bank** a credit rating at **uaA**, the '**in development**' forecast. To read the rating report, please follow the link http://www.avangardbank.com.ua/topublish/CR_Avangard_ua.pdf

The Bank operates as a universal bank which activities are aimed at complete customer service and providing high quality services by offering a wide range of banking services and products, while focusing its core business in the foreign exchange, money and stock markets, carrying out transactions using both own and customers' funds.

The Bank has no subsidiaries, branches and structural subdivisions. The customers are served in the Head Office.

As of the end of the year the Bank's customer base incorporated corporate customers only. The bank maintains 34 accounts of 16 customers; these are predominantly current accounts in the national currency.

Bank Strategy

The Bank has been created following a special concept focused on the use of great experience in the area of its activity with a maximum operating efficiency due to price competition and high technology. The main areas of the Bank activities today include trading in securities, active participation in the market of interbank loans, FOREX market transactions, corporate bonds underwriting, customers funds and securities fiduciary management.

Types of the Bank's Activities.

The Bank carries out banking transactions in the money and foreign exchange markets by virtue of banking license No. 269 dated July 5, 2013, General License to engage in currency transactions No. 269 and the annex to General License to engage in currency transactions No. 269, issued by the National Bank of Ukraine on September 2, 2013.
On January 22, 2014 the Bank obtained a license from the National Securities and Stock Market Commission to engage in the management of securities, brokerage and dealer activities, underwriting.

The Bank activities are based on the principles of reliability, transparency, balanced financial performance, adherence to standards and best practices of banking activities in the following areas:

Treasury transactions: operations in the money market, foreign exchange market, securities transactions (both on behalf of customers and for its own account), relationships with professional financial market participants - banks, insurance companies, financial intermediaries in capital markets. Attracting deposits from bank customers is considered as transactions in the money market as they are the main source of funding for the Bank. Such funding is ensured by customer servicing, flow of documents associated with all types of transactions and operations, processing of orders and messages in the Client- Bank system, opening and maintaining current accounts of customers and correspondent banks, including transfers of funds through payment instruments and crediting funds to accounts; maintaining accounts of customers (residents and non-residents) in foreign currency and non-resident clients in the national currency of Ukraine; maintaining correspondent accounts of banks (residents) in foreign currency; opening correspondent accounts with authorized banks in Ukraine in foreign currency and carrying out transactions involving such accounts.

In 2013, the National Bank of Ukraine imposed no bans in relation to the Bank providing for restrictions of activities the Bank is authorized to perform under obtained permits and licenses, and there were no restrictions on ownership of assets.

In the reporting period, the Bank's management did not take decisions on the merger, accession, division, separation or reorganization of the company, termination of certain activities.

No bankruptcy proceedings were initiated against, and no reorganization award were made in relation to the Bank, the highest governing body of the Bank or a court did not decide on the dissolution or bankruptcy of the Bank.

No loan or credit that exceeds 25% of the Bank's total assets were received and granted.

Bank Development Indexes in 2013

As of December 31, 2013, the assets of the Bank were accounted for UAH 375,518 thousand and predominantly consisted of high liquidity assets and interbank transactions.

The Bank invested primarily in treasury securities, which provided an acceptable level of profitability at low risk. Funds on NOSTRO accounts are placed with correspondent banks only.

Indicators of immediate, current and short-term liquidity significantly exceed the values set by the NBU (H4 = 40.80%, 144.41% = N5, N6 = 144.41%, while according to the prudential norm values they should be not lower than 20%, 40% and 60% respectively).

As of December 31, 2013 the liabilities of PJSC "BANK AVANGARD" amounted to UAH 251,395.37 thousand. The resource base consists of customer funds, including short-term deposits of legal entities. As of the close of business on December 31, 2013 the portfolio of customers' funds amounted to UAH 251,234 thousand. From the point of view of the currency structure, the deposits in the national currency are accounted for nearly 2/3 of the portfolio.

Given the small number of customers engaged in business activities, the concentration of corporate customers' funds by types of business activities is relevant. Financial companies generated more than 43% of the corporate portfolio.

As of December 31, 2013 the Bank's equity amounted to UAH 122,123 thousand and consisted primarily of the share capital. Ratios of assets and loan and investment portfolio coverage with own funds are high

and amount to 32.69% and 45.66% respectively. The funds invested by the Bank in Property and equipment is insignificant, the capital protection ratio is equal to 1.06%.

As of the close of business on December 31, 2013 the Bank's regulatory capital amounted to UAH 121,249 thousand and consisted of tier one capital to the extent of UAH 120,707 thousand with fund capitalization ratio at 100.52%. Capital adequacy ratio is high (the value of the regulatory capital adequacy ratio H2 = 74.17% while according to the prudential norm value it should be not less than 15% (for the first year of bank activities), the ratio of the regulatory capital to total assets H3[1] = 37.56 while according to the prudential norm value it should be not less than 9%, the ratio of the regulatory capital to liabilities H3-1* = 60.70%, while according to the prudential norm value it should be not less 10%). Average values of the banking system of Ukraine are equal to 18.26%, 13.98% and 17.41% respectively.

During 2013 the Bank complied with prudential norms of the National Bank of Ukraine, which at the close of business on December 31, 2013 had the following values:

Regulatory capital ratio (H1), - UAH 121,249 thousand;
Regulatory capital adequacy ratio (H2) – 74.17%;
Tier one capital adequacy ratio (H3) – 37.56%;
Acid liquidity ratio (H4) – 40.80%
Current liquidity ratio (H5) – 144.41%;
Short-term liquidity ratio (H6) – 144.41%.

As of the close of business on December 31, 2013, the Bank's activities are profitable.

At the end of 2013 the Bank generated net profit in the amount of UAH 188 thousand. Main items that influenced the generation of financial results in 2013 were as following:

- net interest income - UAH 4,359 thousand;
- net fees and commissions income - UAH 7 thousand;
- net gain from foreign currencies - UAH 14 thousand;
- administrative and other operating expenses – UAH 4,051 thousand;
- allowance for loans impairment - UAH 354 thousand.

Bank Management

The General Bank Shareholders Meeting shall be the highest management body of the Bank (the 'General Meeting'). During the period between the General Shareholders' Meetings, the Supervisory Board of the Bank (the 'Supervisory Board') shall, within the scope of its competence, protect the shareholders' rights, exercise control over and regulate the Board's activities.

The exclusive competence of the Supervisory Board includes the approval of the Regulations and other internal regulatory documents governing issues related to the Bank's activities which approval falls within the competence of the Supervisory Board; taking decisions on holding the General Meeting of Shareholders, approval of the agenda of the General Meeting and the proposals included in the agenda of the General Meeting, election of the registration committee, deciding on the General Meeting date; deciding on the purchase and placement by the Bank of securities other than shares; approving the market value of property in cases stipulated by law; appointment and termination of office of the Chairman and members of the Board, monitoring the activities of the Board; deciding on removal from the office of the Chairman of the Board and appointment of a person who will temporarily exercise the functions of the Chairman of the Board; appointment of the Bank's auditor; Approval of the Regulation on the Bank's Internal Audit Service, deciding on the appointment and dismissal of the Internal Audit Service head; appointment of the external auditor and the terms of the contract with him; establishing procedures for auditing and monitoring financial and business activities of the Bank; deciding on covering losses;

deciding on the Bank's participation in associations, establishment, reorganization and liquidation of other legal entities, branches and representative offices, approval of their charters and regulations; evaluation of risk of the Bank's insolvency as a result of the liabilities assumed by the Bank, including the payment of dividends or redemption of shares; appointment of the Bank's property appraiser; appointment (change) of the registrar of registered securities holders of the Bank or a securities depository and approval of the terms of the contract to be signed with him, setting the amount to be paid for his services; and other issues covered by applicable law or delegated to the Supervisory Board by the General Meeting of Shareholders.
The *Board of the Bank* ***(the 'Board')*** is an executive body managing the Bank's current activities, forming the funds necessary for the Bank's statute activities and bearing responsibility for the effectiveness of its operations according to the principles and procedures established by the Bank's Charter, decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank. The Bank's board shall report to the General Shareholders' Meeting and the Supervisory Board of the Bank and arrange for the implementation of their resolutions. The Bank's Board decides on the management of activities of structural subdivisions of the Bank, monitors the Bank's compliance with the applicable laws of Ukraine; arranges for keeping the Bank's money and valuables, accounting and reporting, internal control and other issues of the Bank's activities; reviews and approves internal documents of the Bank within their competence, decides on the establishment, management and liquidation of the Bank's structural units other than those falling within the exclusive competence of the Supervisory Board, and exercises other powers stipulated by the applicable laws of Ukraine.

The organizational structure of the Bank is based on the main lines, each of which is subject to one of the members of the Board.

The Bank's full-time staff at the year-end counts 20 employees.

Risk Management in the Bank

The Bank's risk management system is purported to ensure that business goals are achieved according to the defined strategy of the Bank development and increase its value, optimize the ratio of potential opportunities to risks, capital amount and the growth rate of the Bank.

The main tools to achieve these goals are incorporated in the integrated risk management system as established with the Bank that provides for consistency across all departments within a single risk management strategy as approved by the Supervisory Board. The creation of the integrated system is aimed at the maximum concentration of functions of risk management in the Bank, continuous process of analysing the situation and environment in which risks arise and taking management decisions to influence the risks as such and / or the level of vulnerability (exposure) of the Bank to such risks.
The Bank's risk management system is based on the principles set out by regulatory bodies and recommendations of the Basel Committee.

Distribution of risk management functions and powers covers all organization levels and units of the Bank. The conceptual structure of the Bank's risk management provides for the involvement of the Supervisory Board, Board, relevant committees, Risk Management Services and structural units of the Bank's in the risk management process.

The Board shall carry out general risks management in the Bank.

The Asset and Liability Management Committee shall determine the optimal balance sheet structure, plans financial performance indicators and oversees their implementation, considers the prime cost of funding sources, controls the liquidity risk, interest rate and currency risks.

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

The Tariff Committee governs commission income, analyzes the competitiveness of existing tariffs.

The Risk Management Division provides a quantitative and qualitative assessment of risks faced by the Bank, or which may later arise from its activities, monitors the status and extent of risks.

The Risk Management Service provides a quantitative and qualitative assessment of risks faced by the Bank, or which may later arise from its activities, monitors the status and extent of risks, particularly:
- credit risk;
- liquidity risk;
- interest rate risk;
- market risk;
- exchange risk;
- operational and technological risk;
- reputation risk;
- legal risk;
- strategic risk.

The Internal Audit Division checks whether the risk management systems meet the Bank's needs. Organizational units of the Bank carry out operational management of risks associated with their activities according to the established risk tolerance levels and limits, and are responsible for the results of taking those risks. The Bank improves the risk management system revision on a regular basis and provides timely update of the intrabank regulatory framework in case of changes in legislative, regulatory or normative requirements, organizational structure of the Bank and change in the Bank's risk tolerance.

Note 2. Accounting Policy

Note 2.1. Principal activities

The Bank conducts its business in accordance with the laws of Ukraine, including the Laws of Ukraine on Banks and Banking Activity, on Accounting and Financial Reporting in Ukraine, on Payment Systems and Money Transfers in Ukraine, and Tax Code of Ukraine. The Bank follows the regulatory requirements as to the organization of accounting and reporting in bank institutions of Ukraine as established by the rules of the National Bank of Ukraine in accordance with the International Accounting Standards and internal regulations such as the Bank's Charter, Regulation on the Supervisory Board, Regulation on the Board, other regulations governing operations of the Bank.

The bank was granted the license to conduct banking operations dated July 5, 2013. During the year, the Bank's activities were focused on building customer base, generating core business processes and customer service technologies.

The Bank aims to maximize profits from treasury transactions and fully satisfy customer needs for quality banking services in the money, foreign exchange and stock markets. The Bank activities are based on the principles of reliability, transparency, balanced financial performance, adherence to standards of banking activities.

Transactions and activities of the Bank are described in the General Information on the Bank's Activities.

Note 2.2. Accounting Policy and Reporting Basis

The Bank's Financial Statements have been prepared in compliance with the Instruction on Preparation and Publication of Financial Statements of the Ukrainian Banks as approved by Resolution No. 373 of the National Bank of Ukraine dated October 24, 2011 (as amended and restated).

Major principles of the accounting policy as used in preparation and disclosure of these financial statements comply with the requirements of the National Bank of Ukraine applicable to accounting, preparation and disclosure of the financial statements by Ukrainian banks with due regards for principal

provisions of the International Financial Reporting Standards (the 'IFRS'). Regulation on the Bank's Accounting Policy sets out uniform methods of evaluating assets, liabilities and other balance sheet items, the procedure for charging income and expense for each financial instrument, transferring assets to overdue accounts, the procedure for creating and using special provisions, requirements for accounting certain transactions. The major principles of the Accounting Policy have been applied consistently during the reporting year. Criterions for recognition and evaluation of specific assets and liabilities, income and expenses are set forth in relevant sections of Note 1 'Accounting Policy'.

Accounting and Financial Statements of the Bank are based on the principles set forth below:

- full coverage – all bank transactions without any exception are to be registered on business accounts. Financial statements should contain all information on actual and potential results of transactions of the Bank, which may have impact on decision to be made with regard to it;
- continuity (on-going concern) – evaluation of bank assets is made on the assumption that its activity will continue in boundless future. If the bank plans to reduce his activity volumes it shall display it in his financial reports;
- consistency – consistent (from year to year) application of the selected accounting policy. Change of accounting methods is possible only in cases foreseen by international and national accounting standards and requires additional grounding and displaying in financial reports.
- accruals and correspondence of income and expenses – In order to define financial result of reporting period income of the reporting period is compared to expenses made to gain the income. Income and expenses are displayed in the accounting and financial report at the moment of their appearance independently from their crediting or payment date. Income is an increase of economic profit during the reporting period in the form of takings, assets utility increase or reduction of liabilities which result in growth of capital except for its growth in case of shareholders' contributions. Expense is a decrease of economic profit during the reported period in the form of expenditure, assets amortization or creation of liabilities which results in capital reduction and does not represent a distribution among shareholders;
- autonomy – all assets and liabilities accounts are evaluated separately and reported in expanded form;
- caution – employment of accounting methods according to which assets and/or income shall not be overestimated and liabilities and/or expenses underestimated;
- substance over form – transactions are accounted and displayed in the report according to their substance and economic essence not only to their legal form.

Basic estimates. Financial assets and liabilities are recognized at fair value, at cost, or at amortized cost depending on their classification.

Fair value is the amount for which an asset can be exchanged or liability discharged in a transaction between knowledgeable, interested and independent parties; in other words, it represents the current quoted ask prices of financial assets and bid price of financial liabilities quoted on the active market. A financial instrument is deemed to be quoted on an active market if quotations for such financial instrument are readily and regularly available on a stock exchange or other entity, and if such quotations reflect actual and regular market transactions carried out on an arm's length basis. In the event of the absence of an active market, the fair value can be determined referring to information on the recent transactions made between unrelated parties. Amounts of remuneration paid within the scope of forced transactions (forced sell-out of property to repay the debts, during liquidation, etc.) shall not be regarded as fair values. To determine the fair value of the financial instruments, with regard to which there is no information on prices from the external sources, such evaluation methods are used, as cash flow discounting and analysis of financial information on the investment objects. The use of valuation techniques may require certain assumptions that are not supported by market data. In financial statements information is disclosed in those cases where replacement of any such assumption with an alternative assumption may significantly affect the amounts of profit, revenues, expenses, or total assets or liabilities.

Initial cost is the amount of cash or cash equivalents paid or the fair value of other resources made available to acquire the assets on their acquisition date, which includes the transaction costs. Measurement at cost is used with respect to investments in equity instruments that are not quoted on the active market and whose fair value cannot be determined reliably. Transaction costs are expenses incurred to acquire, issue or dispose of a financial asset or liability that would not have been incurred if the transaction had failed. Transaction costs do not include any premiums or discounts on the debt instruments, financing costs, internal administrative expenses, or storage expenses. Except for measurement techniques used for recognition (capitalization) of assets, the Bank applies different methods to bring the value of financial instruments and assets to fair value through charging income and expenses, including effective interest method, creation of special bank provisions, revaluation to fair value, amortization of non-current assets, etc.

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

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

The difference between the Bank's accounting policy and the IFRS requirements is due to, and consistent with, the difference between the requirements of regulatory acts of the National Bank of Ukraine and requirements and provisions of IFRS.

Note 2.3. Initial Recognition of Financial Instruments

The Bank recognizes a financial asset or financial liability only after it becomes a party to the contractual provisions of a relevant instrument. During their initial recognition, financial assets and financial liabilities are measured:

- at fair value – trading securities;
- at fair value inclusive of transaction costs on profit/loss account which are directly related to the purchase or issue of a financial asset or liability – derivatives and all other financial instruments. Usually, fair value of a financial instrument on initial recognition approximates the actual price paid within the transaction; A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by legislation or market convention are recorded at settlement date, which is the date on which the Bank assumes an obligation to deliver a financial asset. All other sales and purchases are recognized at the settlement date. Change in the fair value of a liability during the period between the transaction date and the settlement date shall not be recognized in relation to the assets carried at cost or amortized cost.

Note 2.4. Impairment of Financial Assets

Financial assets other than financial assets carried at fair value, are checked for possible impairment at the end of each reporting period subject to revaluation through profit and loss. Impairment losses are recognized on profit or loss as they are incurred. Financial assets are impaired when objective evidence

demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the investment that can be estimated reliably.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and its recoverable amount that is the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed in subsequent periods.

Note 2.5. Derecognition of Financial Instruments

Financial Assets. The Bank derecognises financial assets (or, if applicable, a part of a financial asset or a part of similar financial assets group) when the assets are redeemed or the rights to cash flows from the assets otherwise expired or the Bank has transferred substantially all the risks and rewards of ownership of the assets or the Bank has not transferred and has not retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial Liabilities. The derecognition of a financial liability takes place when the contractual obligations are discharged, cancelled or expire. If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Income Statement.

Note 2.6. Cash and Cash Equivalents

Cash and Cash Equivalents. Cash and cash equivalents are assets which are readily convertible upon first demand and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise non-restricted balances on correspondent accounts with the National Bank of Ukraine and other banks with less than three months' maturity that can be readily converted in a relevant monetary amount within a short time period, including overnight bank deposits and loans.

Mandatory Cash Balances with the National Bank of Ukraine. Mandatory cash balances with the National Bank of Ukraine are carried at cost and represent mandatory interest bearing reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flow.

Due from Other Banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost.

Note 2.7. Securities Available for Sale

During the reporting period the Bank's portfolio of securities available for sale consisted of government bonds and bonds of business entities.

According to the Regulation on the methodology for assessing the fair value of securities of PJSC "BANK AVANGARD", the Bank may apply, depending on the intent of purchase and maintenance capabilities, the following types of assessment of value of securities owned by the Bank: at fair value or at acquisition value (at cost).

Securities the Bank carries at cost: shares and other securities with non-fixed profit which fair value can be hardly determined reliably;

The acquired securities are initially measured and carried at fair value increased by such securities acquisition cost. On each balance sheet date following the recognition, securities available for sale are carried at fair value.

The fair value of securities that are traded on organized markets is determined by their market value. If quotation of market prices for securities is not available, the Bank shall apply the following methods in order to determine the fair value:

- reference to market value of another similar instrument;
- analysis of discounted cash flows using KIACR rate.

As of the balance sheet date, all securities within the Bank's portfolio for sale shall be subject to revision for the purpose of impairment of their value. Recognition of decreased value of securities by the Bank takes place in the event of loss of economic benefits to the extent to which the carrying amount of securities exceeds the amount of expected replacement value. The provisions for impairment of securities shall be created on a monthly basis in accordance with the calculation approved by the Credit Committee. At the year end, the Bank has recognized no impairment in value of securities available for sale.
Debts under securities the Bank finds unrecoverable shall be written off against created provisions by virtue of a decision of the Board.

In 2013 the Bank carried out no transactions involving selling securities under repurchase agreements.

Note 2.8. Property and equipment

Property and equipment and other non-current assets are accounted for in accordance with the requirements of the Regulation on Accounting Property and equipment and Intangible Assets. Property and equipment are carried using cost method. The cost of purchased Property and equipment and other non-current tangible assets includes all expenses related to their acquisition, delivery, installation and putting into operation. Administrative and other expenses, which are not directly charged to expenses for acquisition of an asset or bringing it to operating condition, shall not be incorporated to that asset initial cost. Costs of maintenance and current repair of assets were charged to expenses as incurred and did not affect the carrying amount of non-current assets.

According to the Bank's Accounting Policy fixed assets with initial cost of up to UAH 2,500.00 and which useful life exceeds one year were recognized as low-value fixed assets.

Property and equipment and other non-current tangible assets are amortized on a monthly basis. Depreciation of newly installed assets starts from the 1st day of the month following the month of the asset purchase. Depreciation of disposed assets ends from the 1st day of the month following the month of their disposal.

For the purpose of financial accounting, depreciation is charged on a straight-line basis. The residual value of Property and equipment is assumed to be equal to zero.

The assets useful life was determined taking into account the following: experience of working with similar assets, the current state of assets, the issue of repair and maintenance of assets, current trends in the area of technology. In conducting the annual inventory of Property and equipment and intangible assets, the Bank changes the expected economic benefits from the use of property and equipment.

The Bank's accounting policy in FY 2013 provides for the following Property and equipment useful life ranges:

machinery and equipment – 5 years;
furniture and inventory – 4 years;
other non-current tangible assets – 2.5 years (according to the premises lease agreement)

In the first month of using a low-cost non-current tangible asset, depreciation shall be charged at the rate of 100% of the value thereof.
The Bank recognized no depreciation of the Property and equipment in FY 2013. No liabilities were secured using the Bank's assets.

Note 2.9. Intangible Assets

For the purpose of financial accounting, intangible assets are measured and carried at cost, which consists of the actual cost of acquisition (production) and bringing to a state in which they are fit for use according to the intended purpose.

Intangible assets are subject to a monthly depreciation charged on a straight-line basis. The Bank determines independently the individual useful life of each intangible asset on the basis of the following criteria: Bank's experience of working with similar assets, current trends in the software products development, operational performance.

The determined useful life of an intangible asset shall be approved by the Bank's commission. However, it cannot exceed 10 years. The largest share is accounted for intangible assets with useful lives of 10 years.

Intangible assets and Property and equipment have been put into operation in 2013. Therefore, the Bank did not carry out. Accordingly, the Bank made no changes to the expected economic benefits from the use of intangible assets and Property and equipment and did not revise the established useful lives for commissioned intangible assets. The Bank recognized no depreciation of the intangible assets in 2013.

Note 2.10. Derivative Financial Instruments

Derivative instrument is a financial instrument or other contract that is characterized by the following features:
- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit creditworthiness index, or other similar variable;
- it does not require initial net investments that are less than those which would be necessary for other types of contracts that are expected to have similar reaction to changes in market factors;
- it is settled at a future date.

A derivative instrument is recognized as a financial asset or financial obligation on the date the obligation arises with regard to the purchase or sale of the subject of the contract. Derivative financial instruments

include currency SWAP, forward transactions, SPOT foreign exchange transactions and combinations of these instruments.

Derivative financial instruments are carried at fair value through profit or loss Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. The fair value of derivative financial instruments that are not sold and purchased on the active market is determined using evaluation methods.

The Bank did not carry out hedging transactions in FY 2013.

Note 2.11. Borrowed Funds

Customer deposits include non-derivative financial liabilities due to state-owned and corporate customers, private individuals and are carried at amortized cost.

Loan debt is recognized only when counterparty has fulfilled its contractual obligations and carried at amortized cost.

Note 2.12. Income Tax

Current and deferred income taxes are carried and presented in the financial statements separately.

Current and deferred income taxes are recognized as expenses or incomes in the Income Statement except for any income tax representing proceeds from assets revaluation to the fair value reported as a part of the Bank's capital.

The income tax rate is 19%. The deferred income tax was accrued at18% for general transactions and 10% for transactions with securities.

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

- for the amount of a created provision for paid leaves;
- for the amount to the extent of which the value of purchase of securities in fiscal accounting exceeds the value of securities available for sale.
- for the amount to the extent of which trade securities portfolio in financial accounting exceeds the value of purchase in fiscal accounting.

In 2013 the Bank reported taxable income in the amount of UAH 125 thousand.

Note 2.13. Share Capital

Share capital means contributions made by shareholders as part of subscription for shares to the share capital which amount is registered following the procedure prescribed by Ukrainian laws.

Pursuant to the Laws of Ukraine on Banks and Banking Activities and Joint Stock Companies and the Bank's charter, decisions on shares issue falls into the competence of the Bank's General Shareholders' Meeting.

Note 2.14. Recognition of Income and Expense

Criteria for income and expenses recognition in the Bank accounting are prescribed by the Rules for Accounting Income and Expense of Ukrainian Banks as approved by Resolution No. 255 of the Board of the National Bank of Ukraine on June 18, 2003.

Operating activities of the Bank give rise to the following types of income and expenses:
- interest income and expenses;
- fees and commissions income and expenses;
- net gain from trading transactions;
- dividend income;
- allowance for assets impairment; proceeds from recovery of previously written off assets;
- other operating income and expenses;
- administrative expenses;
- income tax.

Interest income and expenses – operational income/expense received (paid) by the Bank for the use of cash or cash equivalents or amounts due to the Bank (borrowed by the Bank) which are calculated in proportion to the time using the effective interest rate method. They include:
- income (expense) from transactions with cash placed with other banks (borrowed from other banks);
- income (expense) from loans and deposits granted (obtained) to/from legal entities and private individuals, and other financial instruments, including securities;
- income in the form of discount (premium) amortization.

Interest and similar commission and fee shall be charged at least monthly regardless of frequency of actual settlements with counterparty as may be established by a respective contract.

Fees and commissions income and expenses (the 'fees and commissions') – operating income and expenses under rendered (received) services, the amount of which shall be calculated in proportion to the amount of asset or liability or shall be fixed. Fees and commissions under rendered (received) services, depending on the purpose of their evaluation and accounting base of a related financial instrument, are divided into:
- fees and commissions representing an integral part of the income (expense) generated by a financial instrument.
- fees and commissions received (paid) during the delivery of services shall be recognized as income (expenses);
- fees and commissions received (paid) as a result of certain actions completion shall be recognized as income (expenses) after relevant transaction is completed;

Fee and commission income (expense) from services delivered on continuous basis (cash settlement services) were accounted throughout the term of the agreement.

New gain from trading transactions – results (profit or loss) from purchase and sale of different financial instruments. In case of transactions with securities, foreign exchange and banking metals the Bank recognizes the following profit and loss:
- from the sale of financial investments;
- from changes in evaluation (revaluation) of investments to fair value;
- from revaluation of assets and liabilities in foreign currency and banking metals in case of change of the official exchange rate of UAH to foreign currencies (banking metals).

Dividend income – income arising as a result of the Bank using securities with non-fixed profit.

Allowance for assets impairment – expenses for covering possible loss from depreciation of the Bank's assets and bad assets writing off.

Proceeds from previously written-off assets – funds received for repayment of the debt the Bank has recognized as bad.

Other operating income and expenses – income and expenses from transactions other than those related to investment and financial activities, and transactions not referred to the above groups of operational incomes and expenses, more specifically:
- income (expense) from operating leasing (lease);
- expenses for audit services;
- cash collection expenses;
- penalties (default interest and fines) received (paid) under bank transactions, and other.

Administrative expenses – operating expenses related to the organization of the Bank's activities. These expenses include personnel expenses (salary, social security expenses, compulsory charges, insurance, additional payments, premiums, trainings etc.); depreciation of non-current assets; expenses for maintenance and operation of Property and equipment and intangible assets (repair, insurance), other operational expenses (public utility, security etc.); professional fees (attorney fee etc.); communication expenses (postal, telephone fees etc.); payment of taxes and other compulsory payments except for income tax and other expenses related to the Bank's services and management.

Income tax – operating expenses of the Bank related to the payment of taxes in accordance with the applicable laws of Ukraine and with due regard for the requirements of international accounting standards and national accounting regulations (standards) for the recognition of deferred tax liabilities and tax assets.

Income and expenses recognized by the Bank shall be grouped according to their nature under respective items in the financial statements "Income Statement". Financial results of a reporting period are determined through comparing the reporting period income and expenses incurred to generate such income. Income and expenses are displayed in the accounting and financial statements at the moment of their incurrence independently from their crediting or payment date. Income and expenses of the Bank are accounted and reported in the financial statements using basic accounting principles, in particular, principles of calculation and compliance and diligence.

Note 2.15. Foreign Currency Revaluation

Income and expenses in foreign currency were reflected in the Income Statement at the official UAH to foreign currencies exchange rates established by the National Bank of Ukraine as of the transaction date. Exchange rate differences occurring as a result of foreign exchange transactions were recognized as income or expenses in the reporting.

Assets and liabilities of the Bank denominated in foreign currencies are reported at the official exchange rate of foreign currencies as of the reporting period closure date, i.e.

840=USD=100=UAH 799.3000

978=EUR=100=UAH 1104.1530

Monetary balance sheet items denominated in foreign currency are reported using the official exchange rate; non-monetary items carried at historical cost and credited to the balance sheet in connection with a foreign exchange transaction, shall be carried at the exchange rate established as at the transaction date. Revaluation of all foreign currency balance sheet accounts shall be performed upon each change in the official exchange rate established by the National Bank of Ukraine.
The Bank's management policy in relation to the risk of loss that may be incurred as a result of change in the foreign currency exchange rate is disclosed in the General Information on the Bank's Activities in 2013 and note 'Financial Risks Management'.

Note 2.16. Setting-Off Assets and Liabilities

Set-off of financial assets and liabilities (with further entering only net amount thereof to the statement of financial position (Balance Sheet) may be carried out only in the event of legally assigned right of setting-off the recognized amounts if there is an intention to sell an asset and pay for a liability and conduct a settlement on the basis of a net amount.

No assets and liabilities were set-off in the reporting period.

Note 2.17. Statements by Segments

The Bank's activities can be nominally divided into three major segments: activities in money market, services in foreign exchange market and transactions with securities.

Activities in money market include all transactions providing for borrowing and placing funds in the interbank market of Ukraine and borrowing funds from customers. Foreign exchange market services include foreign currency sale and purchase transactions by a customer's order and using the Bank's position. Transactions with securities include sale and purchase of the Bank's securities available for sale.

In determination the criteria for the activities breakdown by segments, the Bank was ruled by key areas of activities taking into account the specific concept of the Bank incorporation.

In investment activities of the Bank, assets and liabilities are created as a result of purchase of property and equipment, intangible assets, capital investments net of accumulated depreciation and liabilities of the Bank incurred thereunder.

Other transactions include assets (liabilities) not otherwise referred to three major segments, including cash, correspondent accounts with the National Bank of Ukraine, debt related to administrative and commercial activities of the Bank, settlements with employees, payment of taxes and fees to the state, local budgets, Pension Fund, other extrabudgetary funds.

The Bank did not apply transfer pricing in 2013 keeping in mind the specifics of preparing financial statements by segments.

Note 2.18. Principal Estimates, Assumptions and Professional Judgments

The Bank in its operating, financial, investment, and commercial activities and reporting the results thereof uses estimates and assumptions influencing the amounts recognized in the financial statements and carrying amount of the assets and liabilities in next reporting period. These estimates and judgments are regularly revised and are based on the management's previous experience and other factors, including the impact of any highly probable future events. In addition to judgments providing for accounting estimates, the Bank uses professional judgments when applying the accounting policy. Any estimate and judgment revision results are reported in the period when such revision is made and continue to be valid until next revision of estimates, assumptions and judgments is carried out.

Professional judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities in next periods include:

Related party transactions

In its activities the Bank carries out transactions with related parties. In the absence of an active market professional judgments are used to determine market interest rates. These judgments are formulated on the basis of pricing related to similar types of transactions with unrelated parties and effective interest rate analysis.

Historical cost of financial instruments

The Bank should carry financial instruments at fair value during their initial recognition. Provided that there is no active market for relevant financial instruments, their market (non-market) rate is estimated using professional judgment on the basis of agreements entered into between independent, well-informed and independent parties being parties to agreements with the Bank.

Going concern

The fundamental assumption used for preparation of the financial statements is the going concern assumption - the Bank is guided by the assumption that its business will continue in the foreseeable future, and has neither the intention nor the need for the liquidation or significant reduction in the volume of transactions.

Note 2.19. First-time adoption of IFRS

Given that the Bank was established in 2013, these first annual financial statements were prepared in accordance with IFRS.

Note 3. Economic Environment in which the Bank Performs its Activities

Economic environment of Ukraine

In January 2014, the deficit of the consolidated balance of payments amounted to USD 1.9 billion (in January 2013 - surplus of USD 397 million), which was mainly caused by outflow of funds on the financial account**.**
The current account deficit amounted to USD 137 million and remained almost unchanged compared to January 2013 (USD 115 million). However, the value of exports and imports were the lowest for the last three years.
In annual terms, exports of goods decreased by 11.7% (up to USD 4.5 billion). The decline occurred in all major product groups, including:

- chemical products (by 45.5%), due to a four time reduction in the supply of fertilizers (as a result of reduction in world market prices due to the market glut of cheap Chinese carbamide) and shift to internal markets;
- engineering products (by 30%) due to threefold reduction in exports of railroad engine after the suspension of supplies from Russia;
- food products (by 13.1%) due to reduction in exports of oilseeds (by 39.1%). The decline in grain prices was offset by high physical exports of corn;
- steel products (by 2.7%) due to low demand in the Middle East.

In annual terms, imports of goods decreased by 9.1% (up to USD 5.1 billion). Decline was observed for both energy and non-energy imports:

- energy (by 18.2%) - due to reduced cost of natural gas (by 36.0% as a result of decreased prices) and coal (by 38.2%);

- non-energy (by 5.0%) - primarily due to reduction in imports of engineering products (by 22.5%) as a result of lower investment demand.

However, imports of chemical products increased (by 3.9%) due to increased demand for pharmaceutical products (by 23.5%).

Financial and capital accounts deficit in January 2014 reached USD 1.8 billion. Formation of the deficit was due to the unstable situation in the country and the resulting growth of depreciation expectations. Net income from direct foreign investment were almost zero, the real sector repaid long-term loans, outflow of cash from banks intensified. These items deficit was partially offset with the short-term borrowings of private sector.

A positive balance of loans and bonds (USD 680 million) was provided by short-term borrowings of bank sectors, mainly due to overnight loans (balance of these operations – USD 827 million). The deficit on transactions with long-term private sector instruments amounted to USD 406 million. It should be noted that the private sector rollover in January was the lowest for the last two years - 65%.
Due to increased devaluation expectations, the rate of growth of foreign currency outside banks in January 2014 increased up to USD 710 million (compared to USD 57 million in January 2013).
Reduction in reserve assets was driven by the need to finance the deficit of the consolidated balance sheet and the planned repayment of the IMF loan (USD 649 million).

Political instability in Ukraine in recent months led to a significant devaluation of the Hryvnia compared to major currencies.

Due to the current situation in Ukraine, despite the possible adoption of stabilization measures by the Ukrainian Parliament, Government and the National Bank of Ukraine, factors of economic instability persisted as of the date of these financial statements approval.

Economic instability may continue in the near future and it is highly plausible that the market value of the Bank's assets may be lower than their book value, which may have a significant impact on the Bank's profitability.

Note 4. Transition to New and Revised Standards

New standards, amendments and interpretations that have been issued by the IASB but have not come into effect in the financial year ended December 31, 2013, and have not been applied by the Bank.

IFRS 9 *'Financial Instruments'*

The current version of IFRS, reflecting the results of the first phase of the IFRS Board on replacement of IFRS (IAS) 39, applies to the classification and measurement of financial assets and financial liabilities as defined in IFRS (IAS) 39. Initially it was assumed that the standard will come into force in respect of financial years beginning on January 1, 2013 or after, but as a result of the Amendments to IFRS 9 "Date of mandatory application of IFRS and transitional disclosure requirements" published in December 2011, the mandatory application date was postponed to January 1, 2015. At subsequent phases, the IFRS Board will consider the issues of hedge accounting and impairment of financial assets. Application of the first phase of IFRS 9 will not have impact on the classification and measurement of financial assets and

liabilities of the Group. To make the final presentation, the Group will assess the impact of this standard on the amounts disclosed in the financial statements in conjunction with the other phases of the project after the publication of the final version of the standard, which includes all the phases.

***'Investment Companies'* (Amendments to IFRS 10, IFRS 12 and IAS 27)**

These amendments are effective for annual reporting periods beginning on January 1, 2014 or after and provide for exceptions to the requirements for consolidation for companies that meet the definition of an investment company as defined in IFRS 10. Exceptions to the requirements for consolidation require that investment companies take into account the subsidiaries at fair value through profit or loss. It is expected that these amendments will have no impact on the financial position or performance of the Group.

Amendments to IAS 32 *'Set-Off of Financial Assets and Financial Liabilities'*

These amendments, among other things, provide for explanation of the meaning of the phrase 'currently has a legally enforceable right of set-off'. The amendments also describe the procedure for using the offsetting criteria in IAS 32 in respect of settlement systems such as single clearing center systems providing for the use of non-simultaneous gross payments mechanisms. The amendments are effective with respect to annual reporting periods beginning on January 1, 2014 or after. It is expected that these amendments will have no impact on the financial position or performance of the Group.

Interpretation of IFRIC 21 *'Compulsory Payments'* (Interpretation IFRIC 21)

The interpretation of IFRIC 21 clarifies that the company recognizes a liability in respect of compulsory payments when there is an action that involves their payment. In case of a compulsory payment which is due in connection with achieving a minimum threshold, the interpretation prohibits the recognition of the supposed liability until the specified minimum threshold is achieved. IFRIC 21 applies to annual periods beginning on 1 January 2014 or after that date. It is expected that the Interpretation IFRIC 21 will have no impact on the financial position or performance of the Group.

Amendments to IAS 39 '*Novation of Derivatives and Hedge Accounting Continuation'*

These amendments provide for exceptions to the requirement to suspend hedge accounting when the novation of a derivative defined as a hedging instrument meets the established criteria. These amendments are effective with respect to annual reporting periods beginning on January 1, 2014 or after that date. It is expected that these amendments will have no impact on the financial position or performance of the Group.

Note 5. Cash and cash equivalents

Table 5.1. Cash and cash equivalents

(UAH'000)

	Year ended December 31,2013	Year ended December 31,2012
Funds with the National Bank of Ukraine (except for restricted mandatory reserve balance with the National Bank of Ukraine)	15,302	–
Due from other banks	86,791	–
Total cash and cash equivalents	**102,093**	**–**

All cash balances of the Bank on correspondent accounts with other banks, placed with resident banks of Ukraine, which are not bankrupts or liquidated and which are not subject to provisional administration.

Cash and cash equivalents for the purposes of the statement of cash flows

(UAH'000)

	Year ended December 31,2013	Year ended December 31,2012
Funds with the National Bank of Ukraine (except for restricted mandatory reserve balance with the National Bank of Ukraine)	15,302	–
Due from other banks	86,791	–
Total cash and cash equivalents	**102,093**	**–**

Note 6. Due from other banks

Note 6.1. Due from other banks

(UAH'000)

	Year ended December 31,2013	Year ended December 31,2012
2	3	4
Short-term deposits	116,951	–
Allowance for impairment on funds	(354)	–
Total due from other banks net of allowance for impairment	**116,597**	**–**

Due from other banks include interests charged in the amount of UAH 953 thousand as of December 31, 2013.

Table 6.2 Credit Quality Analysis of Due from Other Banks as of the close of business on December 31, 2013

(UAH'000)

	Deposits	Total
Current and non-impaired (standard debt):	116,951	116,951
With other banks of Ukraine	116,951	116,951
Allowance for impairment on funds due from other banks	(354)	(354)
Total due from other banks net of allowance for impairment	**116,597**	**116,597**

Table 6.3 Analysis of Changes in the Allowance for Impairment on Funds Due from Other Banks

(UAH'000)

Changes in Allowances	Year ended December 31,2013	Year ended December 31,2012
Allowance for impairment as of the beginning of the reporting period	–	–
(Increase)/decrease of the allowance for impairment within the year	(354)	–
Allowance for impairment as of the end of the reporting period	**(354)**	**–**

Note 7. Securities Available for Sale

Table 7.1 Securities Available for Sale

(UAH'000)

	Year ended December 31,2013	Year ended December 31,2012
Debt securities:		
Government bonds	150,878	–
Allowance for impairment of securities available for sale	–	–
Total securities available for sale net of allowance for impairment	**150,878**	**–**

Securities available for sale include interests charged in the amount of UAH 6,322 thousand as of December 31, 2013.
No securities are used as pledge or in repurchase transactions.

Table 7.2 Credit Quality Analysis of Debt Securities Available for Sale as of December 31, 2013

(UAH'000)

Item	Government bonds	Total
Current and non-impaired:		
State-owned institutions and enterprises	150,878	150,878
Allowance for impairment of securities available for sale	–	–
Total debt securities available for sale net of allowance for impairment	**150,878**	**150,878**

Note 8. Property and equipment and Intangible Assets

The below items have not been available in the Bank as of December 31, 2013

- Any property and equipment, in respect of which there are statutory restrictions on ownership, use and disposal;
- Property and equipment transferred into pledge, took out of operation, provisionally unusable or transferred into assets held for sale;
- intangible assets in respect of which there are statutory restriction on ownership or unexecuted rights of ownership;
- increase or decrease arising out of revaluations and loss from depreciation, recognized or created directly in equity.

Initial value of the fully depreciated non-current tangible assets amounts to UAH 136 thousand.

Note 8. Property and equipment and Intangible Assets

(UAH'000)

	Machinery and Equipment	Tools, appliances and fittings	Other non-current tangible assets	Capital investments in progress	Intangible assets	Total
Book value as of January 1, 2013	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	–	–	–	–
Cost						
Accumulated depreciation	–	–	–	–	–	–
	546	241	136	2,744	1,031	4,698
Additions						
Capital investments	–	–	501	–	–	501
Depreciation charges	–	–	(136)	–	–	(136)
Disposals	–	–	–	(2 455)	–	(2,455)
Book value as of December 31, 2013	**546**	**241**	**501**	**289**	**1,031**	**2,608**
Cost	546	241	637	289	1,031	2,744
Accumulated depreciation	–	–	(136)	–	–	(136)

Note 9. Other Financial Assets

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Other, including:	1	–
Accrued income for services rendered	1	–
Total other financial assets net of allowance for impairment debt	**1**	**–**

Note 10. Other Assets

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Receivables on acquisition of assets	40	–
Prepaid services	44	–
Deferred expenses	60	–
Other	2	–
Total other assets net of allowance for impairment debt	**146**	–

Note 11. Due to customers

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Other legal entities:	**251,234**	–
Current accounts	250,229	–
Term deposits	1,005	–
Total due to customers	**251,234**	–

Customer deposits include interests charged in the amount of UAH 7 thousand as of December 31, 2013.

Table 11.1 Breakdown of Due to Customer by Types of Economic Activities

(UAH'000)

	Year ended December 31, 2013		Year ended December 31, 2012	
	amount	%	amount	%
Financial and insurance activities	54,894	21.85	**–**	**–**
Services (financial)	108,743	43.28	–	–
Information and telecommunications	1,005	21.85	–	–
Other, including non-residents	86,592	34.47	–	–
Total due to customers	**251,234**	**100**	–	–

Note 12. Other liabilities

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Payables from settlements with employees of the bank	86	–
Expenses charged for telecommunication and operational services	27	–
Total	**113**	–

Note 13. Share capital

(UAH'000)

	Number of shares outstanding	Ordinary shares	Preferred shares	Total
Balance as of January 1, 2013	**–**	**–**	**–**	**–**
Contributions under shares (interests, stakes) of new issue	122,000	122,000	–	122,000
Balance as of the close of business on December 31, 2013	122,000	122,000	–	122,000
Balance as of the close of business on December 31, 2013	**122,000**	**122,000**	**–**	**122,000**

As of December 31, 2013 the authorized share capital of PJSC "BANK AVANGARD", is equal to UAH 122,000 thousand. The Bank's authorized share capital is divided into 122,000 ordinary registered shares with a par value of UAH 1,000 each. The issue of shares was registered; the shares have been paid in full. Ordinary registered shares give the shareholder the right to participate in the management of the Bank, dividends, a preemptive right to purchase additionally issued shares, if such shares are placed by private placement, dispose of shares of each shareholder, a share of the Bank's property or its value in the event of liquidation of the Bank. One ordinary share gives its shareholder one vote for resolving each of the issues at the General Meeting of Shareholders, except for cumulative voting. Dividends are paid to the shareholders on the basis of each share from net income for the financial year and/or from retained earnings in the amount as determined by a resolution of the General Meeting of Shareholders, within six months after the financial year-end. The Bank pays all dividends only in money. No shares were redeemed in the reporting period. No dividends were declared and paid out in the reporting period.

Note 14. Revaluation Reserves (components of other comprehensive income)

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Revaluation of securities available for sale:		
Changes in revaluation to fair value	(72)	–
Income tax resulting from:		
Change in the reserve for revaluation of securities available for sale	7	–
Total revaluation reserves (other comprehensive income)	**(65)**	**–**

Note 15. Analysis of Assets and Liabilities by Maturity

(UAH'000)

	Subject to redemption upon demand and within less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Above 5 years	Total
Assets						
Cash and cash equivalents	102,093	–	–	–	–	102,093
Restricted mandatory reserve balance with the National Bank of Ukraine	1,173	–	–	–	–	1,173
Due from other banks	116,597	–	–	–	–	116,597
Securities available for sale	145,020	5,858	–	–	–	150,878
Receivables	144	–	–	22	–	166
Property, equipment and intangible assets		–	–	1,315	1,293	2,608
Other income accrued	1	–	–	–	–	1
Other assets	2	–	–	–	–	2
Total assets	365,030	5,858	–	1,337	1,293	373,518
Liabilities						
Due to customers	251,234	–	–	–	–	251,234
Payables	161	–	–	–	–	161
Total liabilities	251,395	–	–	–	–	251,395
Net liquidity gap as of December 31	113,635	5,858	–	1,337	1,293	122,123
Total liquidity gap as of December 31	113,635	119,493	119,493	120,830	122,123	

Note 16. Interest Income and Expense

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Interest income from:		
Debt securities available for sale	942	–
Due from other banks	3,116	–
Correspondent accounts with other banks	311	–
Total interest income	**4,369**	**–**
Interest expense from:		
Term deposits of legal entities	(8)	–
Current accounts	(2)	–
Total interest expense	**(10)**	**–**
Net interest income / (expense)	**4,359**	**–**

Note 17. Fees and Commissions Income and Expense

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Fees and commissions income		
Settlement transactions	8	–
Other	3	–
Total fees and commissions income	**11**	**–**
Fees and commissions expense		
Settlement transactions	(3)	–
Securities transactions	(1)	
Total fees and commissions expense	**(4)**	**–**
Net fees and commissions income / expense	**7**	**–**

Note 18. Administrative and Other Operating Expenses

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Personnel expenses	(1,810)	–
Expenses for maintenance of Property and equipment and intangible assets, telecommunication and other operational services	(426)	–
Expenses for operational leasing (lease)	(346)	–
Payment of other taxes and mandatory fees, except for income tax	(1,220)	–
Expenses for security services	(82)	–
Other	(167)	–
Total administrative and other operating expenses	**(4,051)**	**–**

Note 19. Income tax expense

Table 19.1 Expenses for income tax payment

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Current income tax	**(48)**	**–**
Current income tax	(48)	–
Change in deferred income tax related to:	15	–
Occurred or written-off temporary differences	15	–
Total expenses for income tax payment	**(33)**	**–**

Table 19.2 Reconciliation of the Amount of Accounting Profit (Loss) and the Amount of Taxable Profit (Loss)

(UAH'000)

	Year ended December 31, 2013	Year ended December 31, 2012
Profit before tax	221	–
Theoretical tax liabilities at relevant taxation rate (19%)	(42)	–
Adjustment of accounting profit		
Expenses not included to the amount of taxable profit, but recognized in financial accounting:	(28)	–
Personnel expenses	(16)	–
Administrative expenses	(12)	–
Effect of change in the tax rate	22	–
Change in deferred income tax related to the occurrence of temporary differences	15	–
Amount of expenses for income tax payment	**(33)**	**–**

Table 19.3 Tax Consequences Connected with Recognition of Deferred Tax Assets and Deferred Tax Liabilities as of December 31, 2013

(UAH'000)

	Balance as of December 31, 2012	Recognized in the Profit and Loss Account	Recognized as part of equity	Balance as of December 31, 2013
Deferred tax asset due to:				
Value of purchase in fiscal accounting exceeding the value of securities available for sale.	–	–	7	7
Provision for unused vacation	–	15	–	15
Net deferred tax asset / (liability)	**–**	**15**	**7**	**22**

Note 20. Profit/ (loss) per Ordinary and Preferred Share

Table 20.1. Net and adjusted profit/ (loss) per ordinary and preferred share

	2013	2012
Profit/(loss) owned by holders of ordinary shares of the Bank, UAH thousand	123	–
Profit/(loss) for the year, UAH thousand	123	–
Average annual number of ordinary shares in circulation, ths shares	75	–
Net profit/(loss) per ordinary share, UAH	**1.64**	**–**
Adjusted net profit/(loss) per ordinary share, UAH	**1.64**	**–**

Table 20.2 Calculation of profit/(loss) owned by holders of ordinary and preferred shares of the Bank

	2013	2012
Profit/(loss) for the year due to the Bank owners	123	–
Retained profit/(loss) for the year	123	–
Retained profit/(loss) for the year due to the holders of ordinary shares depending on the shares terms	123	–
Profit/(loss) owned by holders of ordinary shares of the Bank	123	–

Note 21. Reporting Segments

Table 21.1 Income, expenses and results of reporting segments in 2013

(UAH'000)

	Reporting segments		Total
	Treasury transactions	Other	
Interest income	4,369	–	4,369
Fees and commissions income	4	7	11
Other operational income	14	–	14
Net receipts from securities available for sale	246	–	246
Total income	**4,633**	**7**	**4,640**
Interest expenses	(10)	–	(10)
Allowance for impairment of funds due from other banks	(354)	–	(354)
Fees and commissions expenses	(1)	(3)	(4)
Administrative expenses	(4,051)	–	(4,051)
Total expenses	**(4,416)**	**(3)**	**(4,419)**
Income tax expenses	(33)	–	(33)

Table 21.2 Assets and Liabilities of the Reporting Segments for 2013

(UAH'000)

	Reporting segments		Total
	Treasury transactions	Other	
Segments assets	356,896	16,622	373,518
Total assets	**356,896**	**16,622**	**373,518**
Segments liabilities	251,282	113	251,395
Total liabilities	**251,282**	**113**	**251,395**

Note 22. Financial Risk Management.

The Bank has developed and implemented risks management and control procedures. The risk management process relies upon relevant regulations of the National Bank of Ukraine. The risk management process in the Bank consists of prevention, identification, measurement, analysis, proposing measures, control, monitoring and reporting.

Credit risk

Credit risk management, limiting 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 to credit risk evaluation. Evaluation is carried out in two ways: qualitative and quantitative.

In order to manage the credit risk in transactions with legal entities and private individuals, the Bank complies with the following credit policy principles:

- investing only in profitable and quality credit assets;
- balanced approach to corporate lending based on the analysis of financial performance of enterprises, markets, industry trends, etc.;
- making decisions to grant a loan on the basis of the quality analysis of the solvency of the borrower, loan repayment sources and prospects of business development;
- loan portfolio diversification with due regard for industry risks, exposure to the effects of global trends, export orientation, markets volatility.

The maximum exposure to the credit risk arising from the operations with one borrower or a group of borrowers (hereinafter - H7) should not exceed 25% of the Bank's regulatory capital. As of 31 December 2013 the ratio of H7 standard was equal to 23.89%.

Market risk

The Bank's risk management system is purported to ensure that business goals are achieved according to the defined strategy of the Bank development and increase its value, optimize the ratio of potential opportunities to risks, capital amount and the growth rate of the Bank.

The main tools to achieve these goals are incorporated in the integrated risk management system as established with the Bank that provides for consistency across all departments within a single risk management strategy as approved by the Supervisory Board. Formation of the integrated system is aimed at achieving maximum concentration of risk management functions at the level of the parent bank. This approach is applied through regulated procedures and regulations of the Bank providing for a set of limits and rules for transactions carrying out for regional institutions.

Currency risk

Table 22.1 Currency risk analysis

(UAH'000)

Currency	Year ended December 31, 2013				Year ended December 31, 2012		
	Monetary assets	Monetary liabilities	Derivative financial instruments	Net position	Monetary assets	Monetary liabilities	Net position
US Dollar	84,119	82,311	–	1,808	–	–	–
Euro	3	2	–	1	–	–	–
Hryvnia	286,687	169,082	2,710	(1,809)	–	–	–
Total	**370,809**	**251,395**	**2,710**	**–**	**–**	**–**	**–**

The risk of financial loss and the likelihood of reduction in the cost of capital associated with changes in the exchange rate and the price of banking metals, which are adverse (opposite) for existing open currency positions, refers to an important type of risk arising in the course of the bank's activities. The amount of potential financial loss is dependent on the size of the open currency positions and the extent of changes in relevant foreign currency exchange rates. The analysis of the impact of projected changes in exchange rates on the financial performance of the Bank is carried out using VAR and GARCH models.

Essential methods and models of currency risks management determined are provided for in the Regulation on Currency Risk Management in PJSC "BANK AVANGARD".

The Bank established internal limits of total open currency position by types of currencies. Currency risk limits are set based on the calculation of value at risk (VaR-method) as a percentage of the size of the Bank's capital and with due regard for the estimation of the transactions efficiency. Methodology and mechanisms for managing currency risk are updated constantly.

The process of currency risk management in the Bank provides for daily monitoring of compliance of the maximum possible amounts of open currency positions based on the reasonable value of capital at risk with the established limits of open currency positions, analyzing the volatility of exchange rates and the value of foreign exchange risk under normal and stress conditions.

Parametric evaluation methods based on the assumption of normal distribution of foreign currency fluctuations (Value-at-Risk methodology, etc.) were found inappropriate for predicting the value of the currency risk of the Bank. In this case, the amount of risk for each open currency position and acceptable risk value was determined based on the analysis of fluctuations in exchange rates. Limits of open currency positions that are subject to daily control by the risk management division and currency risk limiting tool were determined accordingly.

Table 22.2 Changes in financial result and equity capital caused by possible changes in exchange rates as at the reporting date provided that all other variable characteristics remain unchanged

(UAH'000)

	Year ended December 31, 2013		Year ended December 31,2012	
	Impact on profit / (loss)	**Impact on equity**	**Impact on profit / (loss)**	**Impact on equity**
Strengthening of US Dollar by 5%	90.4	–	–	–
Weakening of US Dollar by 5%	(90.4)	–	–	–
Strengthening of Euro by 5%	0.1	–	–	–
Weakening of Euro by 5%	(0.1)	–	–	–

In order to ensure stable operations of the Bank, formation of the regulatory capital pursuant to the requirements of the National Bank of Ukraine and with due regard for recommendations as to minimum capital requirements of the Basel Committee on Banking Supervision, and to determine the amount and monitor the adequacy of the capital taking into account all the risks to ensure ongoing activities the Bank in all areas of its business, the Bank has implemented an internal capital adequacy control model.

The risk of financial loss and the likelihood of reduction in the cost of capital associated with changes in the exchange rate and the price of banking metals, which are adverse (opposite) for existing open currency positions, refers to an important type of risk arising in the course of the bank's activities. The amount of potential financial loss is dependent on the size of the open currency positions and the extent of changes in relevant foreign currency exchange rates. The analysis of the impact of projected changes in exchange rates on the financial performance of the Bank is carried out using GARCH model.

The Bank considers that other risks are not significant for the Bank, and, therefore, the Bank does not track them.

Table 22.3 Change in financial result and equity caused by possible changes in exchange rate set as average-weighted exchange rate, provided that all other variable characteristics remain unchanged

(UAH'000)

	Average-weighted exchange rate for the year 2013		Average-weighted exchange rate for the year 2012	
	Impact on profit / (loss)	Impact on equity	Impact on profit / (loss)	Impact on equity
Strengthening of US Dollar by 5%	90.4	–	–	–
Weakening of US Dollar by 5%	(90.4)	–	–	–
Strengthening of Euro by 5%	0.1	–	–	–
Weakening of Euro by 5%	(0.1)	–	–	–

Interest risk

Table 22.4 General analysis of the interest risk

(UAH'000)

	Upon demand and within less than 1 month	1 to 6 months	6 to 12 months	More than one year	Interest free	Total
2013						
Total financial assets	260,713	–	–	–	103,266	363,979
Total financial liabilities	1,000	–	–	–	250,288	251,228
Net liquidity gap as of the close of business on December 31 of the previous year	259,713	–	–	–	–	259,713

The Bank has been exposed to the interest risk in 2013:

- in case of rate reduction the interest income decreases by one percentage point but for not more than UAH 1,867 thousand per year;

- in case of rate increase the interest income decreases by UAH 150 thousand per year. The Bank was exposed to the interest risk in 2011:

Table 22.5 Monitoring interest rates applicable to financial instruments

(%)

	December 31, 2013				December 31, 2012			
	UAH	USD	Euro	Other	UAH	USD	Euro	Other
Assets								
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Due from other banks	11.52	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities available for sale	13.99	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities								
Customer deposits	0.1	0.01	0.0	0.0	0.0	0.0	0.0	0.0
Current accounts	0.02	0.01	0.0	0.0	0.0	0.0	0.0	0.0
Term deposits	14.22	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Geographic Risk

Table 22.6 Analysis of geographic concentration of financial assets and liabilities for the year 2013

(UAH'000)

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	102,093	–	–	102,093
Due from other banks	116,597	–	–	116,597
Securities available for sale	150,878	–	–	150,878
Other financial assets	1	–	–	1
Total financial assets	369,569	–	–	369,569
Liabilities				
Due to customers	164,642	–	86,592	251,234
Total financial liabilities	164,642	–	86,592	251,234

Assets and liabilities were classified depending on the counterparty's residency information.

Liquidity risk

Table 22.7 Analysis of financial liabilities by maturities for the year 2013

(UAH'000)

	Upon demand and within less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Above 5 years	Total
Due to customers	251,234	–	–	–	–	251,234
Total potential future financial liabilities payments	**251,234**	**–**	**–**	**–**	**–**	**251,234**

To assess the level of liquidity risk, the Bank uses the method of determining gaps between assets and liabilities at different time intervals (hereinafter - Liquidity GAP). Liquidity GAP is calculated as the difference between total assets and total liabilities in each time interval. Liquidity GAP is calculated according to the method adopted by the parent company. Liquidity GAP calculation is performed both at each interval and on a cumulative (progressive total) basis, and is carried out monthly by the Assets and Liabilities Management Committee by major currencies. To calculate the mismatch between assets and liabilities, the Assets and Liabilities Management Committee (the 'ALMC') applies special rules for taking into account items of the balance sheet (conventions), as approved by it in consultation with the parent company. The coefficient analysis is used to assess the dynamics of changes in the structure of the Bank's balance sheet and determine their impact on the liquidity risk in general. To measure the liquidity risk the Bank uses a list of indicators that are calculated in both absolute and relative terms.

Table 22.8 Financial liabilities and assets analysis by maturities on the basis of expected maturities for the year 2013

(UAH'000)

	Upon demand and within less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Above 5 years	Total
Assets						
Cash and cash equivalents	102,093	–	–	–	–	102,093
Restricted mandatory reserve balance with the National Bank of Ukraine	1,173	–	–	–	–	1,173
Due from other banks	116,599	–	–	–	–	116,599
Securities available for sale	145,032	5,858	–	–	–	150,890
Other financial assets	1	–	–	–	–	1
Total financial assets	364,898	5,858	–	–	–	370,756
Liabilities						
Due to customers	251,234	–	–	–	–	251,234
Total financial liabilities	251,234	–	–	–	–	251,234
Net liquidity gap as of the close of business on December 31	113,664	5,858	–	–	–	119,522
Total liquidity gap as of the close of business on December 31	113,664	119,522	119,522	119,522	119,522	–

Liquidity management in substandard conditions is carried out in two modes: the pre-crisis and crisis liquidity condition. To overcome the liquidity crisis, the ALMC determines the amount of the deficit to be eliminated, and the required deadlines; forms the anti-crisis working group; develops the specific anti-crisis action plan. The situation is determined as a crisis one at the ALMC meeting. The initiator of the situation recognition as a crisis one shall provide the assessment of the situation, make proposals for recognition of the situation as a crisis one and the need for taking action and procedures as provided for in the anti-crisis action plan. The Bank has implemented a model of the liquidity risk management, which allows for continuous monitoring the liquidity risk level, control the flows of assets and liabilities in order to prevent the growth of the liquidity risk, and has developed an action plan to maintain sufficient liquidity in the event of the pre-crisis and crisis situations in the banking sector of Ukraine.

Note 23. Capital Management.

The Bank's objectives in the area of capital management shall be as follows: compliance with the capital requirements established by the National Bank of Ukraine and coverage of negative effects of crisis events; To determine the level of capital, the Bank assesses the level of regulatory capital and capital adequacy ratios. Regulatory capital is one of the most important indicators of bank activities, which main purpose is to cover the negative effects of various risks the Bank assumes in the course of its business, and ensure the protection of deposits, financial stability and stable activities of the Bank.

Regulatory capital structure

	December 31, 2013	December 31, 2012
Tier one capital		
Paid-in registered authorized share capital	122,000	–
Reductions		
Intangible assets net of depreciation	(1,031)	–
Capital investments in intangible assets	(262)	–
TOTAL Tier one capital	**120,707**	–
Tier two (supplementary) capital		
Allowance for standard risk debt impairment	354	–
Retained profit for the current year	188	–
TOTAL Tier two (supplementary) capital	**542**	–
TOTAL REGULATORY CAPITAL	**121,249**	–

Capital adequacy ratio (solvency ratio) reflects the Bank's ability to timely and fully pay for its obligations arising from trade, credit or other transactions of monetary nature. The higher is the regulatory capital adequacy ratio, the greater is the proportion of risk assumed by the owners of the Bank; conversely, the lower is the ratio value, the greater is the proportion of risk assumed by the Bank's lenders / depositors. Capital adequacy ratio is set to prevent excessive shifting of the bank's credit risk and the risk of non-repayment of bank assets to the Bank's lenders / depositors.

The ratio of regulatory capital to total assets (hereinafter referred to as the 'H3') shall reflect the regulatory capital amount which is necessary for the bank to perform active transactions. H3 establishes a minimum ratio of regulatory capital to total assets Prediction of the capital adequacy in terms of calculating the regulatory capital according to the procedures and requirements of the National Bank of Ukraine is conducted by the Assets and Liabilities Management Department on a monthly basis. The results of calculations are considered by the ALMC for making managerial decisions regarding the adequate formation of assets and liabilities. Daily monitoring of capital adequacy ratio is carried out by the regulatory and financial reporting division.

The ALMC oversees the preparation of the annual capitalization plan that is a part of the Bank's budget and should ensure that the Bank complies with the minimum capital requirements and details the projected growth of capital and assets, dividend payments, future business expansion, loss on problem loans and projected revenues. The plan is also designated to support the capital adequacy in accordance with the regulatory requirements of the National Bank of Ukraine. The Bank committed no violations of the regulatory capital adequacy ratio and H3 ratios in 2011 due to its effective capital management policy.

Note 24. Contingent Liabilities of the Bank

On 31 December 2013, the bank's contractual obligations under the agreements on purchase of intangible assets (software) amounted to UAH 1,217 thousand.

As of December 31, 2013 the Bank had no

- liabilities associated with lending
- pledged assets
- agreements providing for non-cancellable leases
- cases pending in the courts.

Note 25. Fair Value of Financial Instruments

According to the Regulation on the Accounting Policy, Fair value shall mean the value at which exchange of asset or payment of liability may be made as a result of a transaction between the informed, interested and independent parties, particularly:

- fair value of an asset – an amount, which would be payable in order to purchase (exchange) such an asset,
- fair value of a liability – an amount for which such liability may be extinguished.

The fair value for financial assets that are freely negotiable in the market shall mean their quoted prices in an active market. Where the market for a financial instrument is not active, or in the market there is no information about current prices or it is impossible to find similar objects for evaluation to determine the estimated fair value, the Bank uses the evaluation method and assumption in respect of each class of financial assets or financial liabilities.

Securities available for sale are carried at fair value as of December 31, 2013. In addition, the Bank believes that the value of such liquid assets / liabilities as cash and cash equivalents; short-term borrowings / deposits, long-term borrowings / deposits in the interbank market to which the floating rate applies as reflected in the balance sheet as of 31 December 2013 can be equated to fair value.

Note 26. Related Parties Transactions.

Table 26.1. Payments to the Top Management.

(UAH'000)

Item	2013		2012	
	expenses	charged liability	expenses	charged liability
Current payments to key management personnel	899	44	–	–

Key management personnel shall mean personnel responsible for the management, planning and control of the Bank's activities, in particular, the Chairman and members of the Supervisory Board, the Chairman and members of the Board, Deputy Chairmen of the Board, the Chief Accountant and Deputy Chief Accountant.

During FY 2013, the Bank carried out no transactions with related parties.

Note 27. Subsequent Events.

Since November 2013 Ukraine has been in difficult political times.

On February 22, 2014, the Ukrainian Parliament voted for restoration of the Constitution 2004 and dismissal of the effective President. New presidential elections have been scheduled for May 2014 and formation of an interim government has been started. In January and February 2014, the Ukrainian Hryvnia depreciated against major world currencies and significant external funding became necessary to maintain its stability. In addition to other measures, the National Bank of Ukraine imposed certain temporary restrictions on performance by banks of customer payments and purchase of foreign currency in the interbank market. In February 2014, the Ukraine's sovereign rating was further downgraded to CCC with a negative outlook. The final decision and the impact of the political crisis are difficult to predict, and the lasting crisis may also adversely affect the Ukrainian economy. After December 31, 2013 the Bank

operates in the normal course of business and the Bank's management believes that it has taken all necessary measures to support the sustainability of the Bank under these conditions.

In 2014, the Bank's major shareholder became VESTAL HOLDINGS LTD, which owns a significant share in the Bank and therefore directly holds 99.99 percent of the authorized capital of PJSC "BANK AVANGARD".

No other events that may be significant for users of these financial statements of the Bank occurred after the balance sheet date. In particular, there were no:

business mergers & acquisition ;
suspension or making a decision on the termination of activities;
purchase of a significant amount of assets;
restructuring;
significant changes in exchange rates or the Bank's assets value;
court decisions in favour of the plaintiffs, which could impose significant financial obligations on the Bank.

Note 28. Information on the Auditor (Audit Firm).

The financial statements of PJSC "BANK AVANGARD", as prepared in accordance with International Financial Reporting Standards and the requirements of regulations of the National Bank of Ukraine for the financial year ended on 31 December 2013, was audited by the audit firm 'Limited Liability Company 'BAKER TILLY UKRAINE'.

BAKER TILLY UKRAINE LLC is acting on the basis of Certificate of registration in the register of auditors and audit firms No. 2091, issued on January 26, 2001 and valid through November 4, 2015 (pursuant to decision No. 221/3 of the Audit Chamber of Ukraine dated November 4, 2010).

The independent auditor's report (opinion) as signed by Gagik Sergeyevich Nersesian, acting on the basis of Bank Auditor Certificate No. 0171, valid through December 22, 2016 (issued by virtue of decision No. 244/3 of the Audit Chamber of Ukraine dated December 22, 2011), and Certificate No. 0000168 of registration in the bank auditors register of the National Bank of Ukraine, valid through December 22, 2016 (pursuant to decision No. 38 of the Bank Audit Committee dated February 1, 2012).

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

Chief Accountant **V.S. Chechotkina**