AVANGARD BANK

JOINT-STOCK COMPANY «BANK AVANGARD»

JSC "BANK AVANGARD"

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018

with Independent Auditor's Report

TRANSLATED FROM UKRAINIAN ORIGINAL

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CONTENTS

	Page
Report of Management Bodies "Management Report", which includes Corporate Management Report of JSC "BANK AVANGARD"	3
Independent Auditor's Report	34
Statement of Financial Position as at 31 December 2018	44
Statement of Comprehensive Income for 2018	45
Statement of Cash Flows for 2018 (direct approach)	46
Statement of Changes in Equity for 2018	47
Notes to Annual Financial Statements for 2018	48

AVANGARD BANK

JOINT-STOCK COMPANY «BANK AVANGARD»

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

for 2018

1. INTRODUCTION.

This report is drawn up according to the requirements of the current legislation of Ukraine, namely: requirements of the National Bank of Ukraine regarding the procedure for preparing and publishing the financial statements of the banks of Ukraine, the Laws of Ukraine "On Securities and Stock Market" and "On Financial Services and State Regulation of Financial Services Markets" following the results of the activities of the JOINT-STOCK COMPANY "BANK AVANGARD" (hereinafter referred to as the "Bank"). The reporting year is 2018.

2. NATURE OF BUSINESS.

The National Bank of Ukraine registered the Bank on July 5, 2013. Subject to the Banking License No. 269 dated July 5, 2013, the General License for the Foreign Exchange Transactions No. 269-2 and Appendix to the General License for the Foreign Exchange Transactions No. 269-2 issued by the National Bank of Ukraine on February 10, 2014, the license of the State Commission on Securities and Stock Market for Dealer Activities, the Bank offers its customers a wide range of banking services and products, but focuses its main activities on the currency, money and securities markets, conducting transactions both using its own funds and the funds of the customers.

2.1 The external environment, where the bank operates.

According to the National Bank of Ukraine, 2018 was characterized by the restoration of macro-financial stability in Ukraine. Thus, during the reporting year, the Ukrainian economy has shown its maximum growth over the last seven years. The real GDP has grown by 2.8 % following the results of three quarters, and, according to the forecast of the NBU, the economy will grow by 3.4 % on an annual basis.

According to the results of the year, inflation has proceeded to decline and for the first time in five years declined to one-digit level – 9.8 % (13 % in 2017). This exceeded the inflation target of the National Bank of Ukraine, which was 6 +/- 2 percent. According to the results of the year, consumer inflation was higher, however, according to the National Bank of Ukraine, the key to inflation targeting policy is not to get the desired inflation rate at a certain time, but to ensure a stable trend of this indicator in line with inflation targets.

The significant achievements of 2018 in the macroeconomic environment are the following:

- easing of the fundamental inflationary pressure on the Ukrainian economy,
- creation of more comfortable conditions for business and formation of savings by the population, and
- gradual approaching of inflation to the medium-term objectives of the National Bank, which is 5 %.

Taking into account the increase in inflation risks, the National Bank of Ukraine has raised its discount rate four times during 2018, in total by 3.5 percent to the current 18.0 % per annum.

This resulted in increase in the interest rates on deposits and, accordingly, stimulated the increase in savings. This affected the availability of loan services, the growth of interest rates on loans.

Due to the tough monetary policy, as well as the favorable price conditions for Ukrainian export in foreign markets in the first half of the year, and record grain harvest in the second half of the year, UAH rate has strengthened by 1.4 % in 2018, which became a sign of stabilization in the currency market. The absence of significant panic in the currency market, even after significant political events, indicates an increase in the confidence of the population and the market participants in the ability of the National Bank to mitigate excessive fluctuations. This is also due to the unprecedented level of transparency of the central bank's activities.

Strengthening of hryvnia provided the National Bank with the opportunity to replenish actively international reserves within the year due to purchasing of currency on the interbank market – during the year, the balance of foreign exchange interventions by the National Bank of Ukraine was equivalent to 1.4 billion USD, which was directed to the international reserves. Another source was the external financing: Ukraine received a new program of cooperation with the International Monetary Fund, which is the foundation for further strengthening of macro-financial stability. Due to this, USD 2.4 billion were received from international partners (the IMF, the European Union and the World Bank). As a result, Ukraine has the largest volume of international reserves for five years – USD 20.8 billion.

During 2018, the National Bank of Ukraine significantly reformed the prudential function, introduced risk-oriented approaches to banking supervision corresponding to the international standards, banking assessment process according to the SREP system, the annual assessment of banks' stability, which consists of an asset quality assessment, and for the largest banks – stress testing. Such procedures are a standard practice of leading regulators in the world, which prevents excessive accumulation of systemic risks and prepares banks for possible future crises.

The National Bank of Ukraine approved the Strategy of Macro-Prudential Policy to ensure the financial stability necessary for sustainable economic growth. Last year, within a transition to the international standards for banks based on Basel III, the National Bank introduced the first macro-prudential instrument – an obligatory liquidity ratio (LCR).

No less important event of last year was the introduction of new standards for the risk management system organization. The relevant document provides for a greater involvement of the bank's board in its supervisory responsibility to creation of the operating risk management infrastructure and monitoring compliance with the general principles of risk management. The new regulations determine the list of main risks, which the bank must identify, measure, monitor, control and report.

The introduction by the National Bank of Ukraine of the Credit Register of the National Bank enables the banks to obtain information on debtors, terms of credit transactions, fulfillment of obligations under such transactions and a class of debtors from the Credit Register, which will allow the banks to assess more fully the debtor's risks.

In general, according to the results of 2018, the banking sector has shown the high results. Today, there are 77 banks, including 4 state banks and 22 banks with foreign capital in Ukraine. The banking system is assessed not only as stable, fully capitalized and transparent, but also profitable for the first time in five years. Confidence of the population in the banking system is strengthened. The population has increased its deposits in hryvnia by 15 % per year. The banks have stepped up lending: the volume of hryvnia loans issued to the population has grown by 31 % during the year. To some extent, corporate lending has been restored, despite sufficiently high average loan rates. Restoration of mortgage lending for the population is a priority of the central bank for the next years.

2019 began with the long-awaited currency liberalization, since the Law "On Currency and Currency Transactions" came into force on February 7, 2019. A new mode of currency transactions will be much easier for citizens and business. Approaching of a free capital movement will be facilitated by the implementation in Ukraine of the action plan to prevent the erosion of the tax base – so-called BEPS package, issued by the Organization for Economic Cooperation and Development.

Strengthening of the Ukrainian financial sector will also be facilitated by the draft law on split to be adopted by the Verkhovna Rada, which will enable to bring the non-bank financial market into line with European standards, increase the quality of work of financial companies and protection of consumers of financial services, as well as create conditions for new foreign players on this market.

The high level of non-performing loans is in the way to active restoration of lending. The solution to this problem, which supports the market, is to create a legal framework for companies engaged in debt management. Modernization of the relevant legislation in this sector will ensure the creation of a proper competitive environment in the Ukrainian secondary credit market and, thus, will rapidly reduce the problem portfolios of the banks. Completion of the judicial reform will also facilitate the activation of lending, which would ensure the steadfast implementation of laws and protection of the creditors' rights.

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

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

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

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

As of the end of 2018, the Bank's customer base is formed by business entities (148 customers), non-bank financial institutions (36 customers), individual customers (27 customers) and individual entrepreneurs (4 customers). The Bank serves 215 customers, in total, 574 accounts are opened in national and foreign currencies, the vast majority of which are the current ones.

The main aspects of the Bank's activities:

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

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

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

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

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

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

The authorized capital of the Bank made UAH 300.120 million at the date of this Business Plan, which corresponds to the regulatory requirements. According to the results of the stability assessment of JSC "BANK AVANGARD" in 2018, the National Bank of Ukraine decided on the lack of need for bank capitalization. In future, the Bank plans to adhere to the requirements of the National Bank of Ukraine regarding the size of the authorized and regulatory capital, increasing it by capitalizing profits, and, if necessary, by additional contributions of the shareholders.

The Bank's strategy has not changed significantly since the beginning of its activities in 2013 and till now. Business plans and budgets are subject to review at least once a year in order to confirm the main indicators of the financial market, which are a prerequisite for their drawing up, making appropriate changes, subject to introduction of new products.
During 2018, the National Bank of Ukraine applied no restrictions to the Bank on limiting the types of activities that the Bank might execute according to the permits and licenses granted, and there were no restrictions on the ownership of the assets.

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

During the reporting year:

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

3. INDICATORS OF THE BANK DEVELOPMENT IN 2018.

The Bank's assets made UAH 934,037 thousand as of the end of December 31, 2018 (UAH 1,355,106 thousand as of the end of December 31, 2017).

The quality of assets of JSC "BANK AVANGARD" is good. Highly liquid assets remain the main component of the Bank's assets. Highly liquid assets are mainly represented by the domestic government loan bonds and the NBU deposit certificates. Funds on NOSTRO accounts are deposited in the resident banks.

The Bank's liabilities made UAH 611,824 thousand as of the end of December 31, 2018 (UAH 1,043,966 thousand as of the end of December 31, 2017). The resource base is formed by funds of the customers, in particular short-term funds of legal entities and individuals. The portfolio of customer funds as of the end of December 31, 2018 made UAH 586,826 thousand (UAH 852,370 thousand as of the end of December 31, 2017).

The Bank's equity made UAH 322,213 thousand as of the end of December 31, 2018 (UAH 311,140 as of the end of December 31, 2017). The main component of the Bank's equity is the authorized capital of the Bank.

The Bank's regulatory capital made UAH 322,467 thousand as of the end of December 31, 2018, including the capital of the first level in the amount of UAH 308,280 thousand and the capital of the second level in the amount of UAH 14,187 thousand.

During the reporting period, the Bank corresponded to the economic standards of the National Bank of Ukraine, which, at the end of December 31, 2018, had the following values:

	Requirement	**As of the end of December 31, 2018**	**As of the end of December 31, 2017**
regulatory capital ratio (H1)	200,000 thousand UAH	322,467 thousand UAH	311,929 thousand UAH
regulatory capital adequacy ratio (H2)	not <10 %	60.38 %	67.07 %
instant liquidity ratio (H4)	not <20 %	53.44 %	31.74 %
current liquidity ratio (H5)	not <40 %	122.68 %	85.24 %
short-term liquidity ratio (H6)	not <60 %	115.65 %	74.61 %

According to the results of 2018, the Bank's activities are profitable and the net profit makes UAH 10,465 thousand.

More information is provided in the Annual Financial Report of the Bank for 2018.

Credit–Rating Independent Credit Rating Agency confirmed the Bank's credit rating at uaAAA level on February 7, 2019, the forecast is "stable".
The credit rating report is available at
http://www.avgd.ua/topublish/CR_Avangard_ua_070219.pdf

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

In 2019, taking into account changes in the market conditions, the Bank is going to hold a short-term portfolio of the domestic government loan bonds in the amount of ~50 % of assets. Other assets will consist of funds from other banks and short-term loans to reliable borrowers. At the same time, 90 % of the Bank's assets will be placed for a period of up to 30 days, and at least 80 % of assets will be highly liquid, since they will consist of interbank credit transactions, a portfolio of the domestic government loan bonds and balances on correspondent accounts with the most reliable Ukrainian and foreign banks. At least 85 % of the funds attracted will be the funds from legal entities. Such asset profile will be retained until the adoption of individual decisions on introduction of new products within the next years.

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

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

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

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

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

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

In 2018, the Bank confirmed the compliance of its procedures with the requirements of international standards regarding the quality management system ISO 9001 and the information security management system ISO 27001. During the next years, the Bank plans to comply with the requirements of these international standards. The Bank is going to build a system for managing the continuity of business under the international standard ISO 22301 by the end of 2021.

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

The Bank plans to implement IBAN in 2019 for internal and external settlements, enhance the cryptosecurity of its settlement mechanisms and systems, as well as will work on creation of an innovative platform for the development of new products and services. This will be

facilitated, without limitation, by introduction of new products of information security provision, monitoring and audit, the continued implementation of the electronic digital signature in the Bank's activities, as well as expansion of the field of electronic document flow application.

In 2019-2021, the Bank will also implement anti-corruption procedures according to the international standard ISO 37001, which becomes popular in the world.

The Bank's objective is to become the absolute Digital Bank by the end of 2021, to the extent permitted by the current legislation at that time, while retaining its own business model. For this, it will optimize all operational procedures, introduce new software products that will automate all routine procedures, maximally accelerate the execution of all required database checks, and perform the settlement transactions as efficiently as possible in order to maintain high reliability and sufficiently high profitability of the Bank.

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

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

5. THE BANK'S NEED FOR FINANCING.

In view of the special concept and business model of the Bank as a treasury bank, we believe that the Bank does not require additional financing for its activities; its authorized capital is sufficient to meet regulatory requirements for the period of up to 2022. The authorized capital of the Bank will be increased to the amount required within the period, established by the law, to comply with the regulatory requirements regarding the size of authorized and regulatory capital of the Bank. Such increase will be due to capitalization of the Bank's profits, and, if necessary, due to additional contributions of the Bank's shareholders. The Bank provides for no increase in the authorized capital, as well as significant attraction of the customers' financial resources for the period of up to 2022.

6. RESOURCES OF THE BANK.

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

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

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

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

The key non-financial resources of the Bank: the intellectual capital of the Bank's staff, technological resources. The Bank is provided with premises, office equipment, banking equipment and special technical means for security system creation. The amount of funds invested by the Bank in the fixed assets is insignificant, the capital security factor made 0.16 %.

7. CORPORATE MANAGEMENT REPORT.

7.1. OBJECTIVE OF ACTIVITIES OF THE FINANCIAL INSTITUTION.

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

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

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

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

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

The Bank has been complied with the Corporate Governance Code of the Bank and the principles specified therein during 2018, there were no deviations.

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

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

7.3. HOLDERS OF THE SUBSTANTIAL SHAREHOLDING IN THE BANK.

WESTAL HOLDINGS LTD (Limassol, the Republic of Cyprus) is the shareholder of the Bank, which is a holder of substantial shareholding in the Bank and holds directly 100.00 % of the authorized capital of the Bank as of January 1, 2019.

As of January 1, 2019, the holders of the substantial shareholding in the Bank indirectly are:

- Legal entity ICU Holdings Limited (Tortola, British Virgin Islands), which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD;
- Legal entity NAREMIUS HOLDINGS LTD (Tortola, British Virgin Islands), which indirectly holds: 41.7095 % of share in the Bank through the legal entity ICU Holdings Limited, which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD;
- Legal entity FILTESA HOLDINGS LTD (Tortola, British Virgin Islands), which indirectly holds: 41.7095 % of share in the Bank through the legal entity ICU Holdings Limited, which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD;

- A group of persons bound by common economic interests, namely:
  - Individual Kostiantyn Viktorovych Stetsenko (place of residence: Kyiv, Ukraine), who indirectly holds 41.7095 % of share in the Bank through 100.00 % of share in the legal entity NAREMIUS HOLDINGS LTD, through the legal entity of ICU Holdings Limited, which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD;
  - Individual Makar Yuriiovych Paseniuk (place of residence: Vyshhorod, Kyiv region, Ukraine), who indirectly holds 41.7095 % of share in the Bank through 100.00 % of share in the legal entity FILTESA HOLDINGS LTD, through the legal entity of ICU Holdings Limited, which indirectly holds: 100.00 % of share in the Bank through 100.00 % of share in the legal entity WESTAL HOLDINGS LTD.

The following changes took place in the holders of the substantial shareholding in 2018:

- WESTAL HOLDINGS LTD increased its share in the Bank from 99.9902 % to 100 %;
- The indirect holders of the substantial shareholding in the Bank were NAREMIUS HOLDINGS LTD and FILTESA HOLDINGS LTD.

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

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

7.4. THE BANK'S MANAGEMENT SYSTEM.

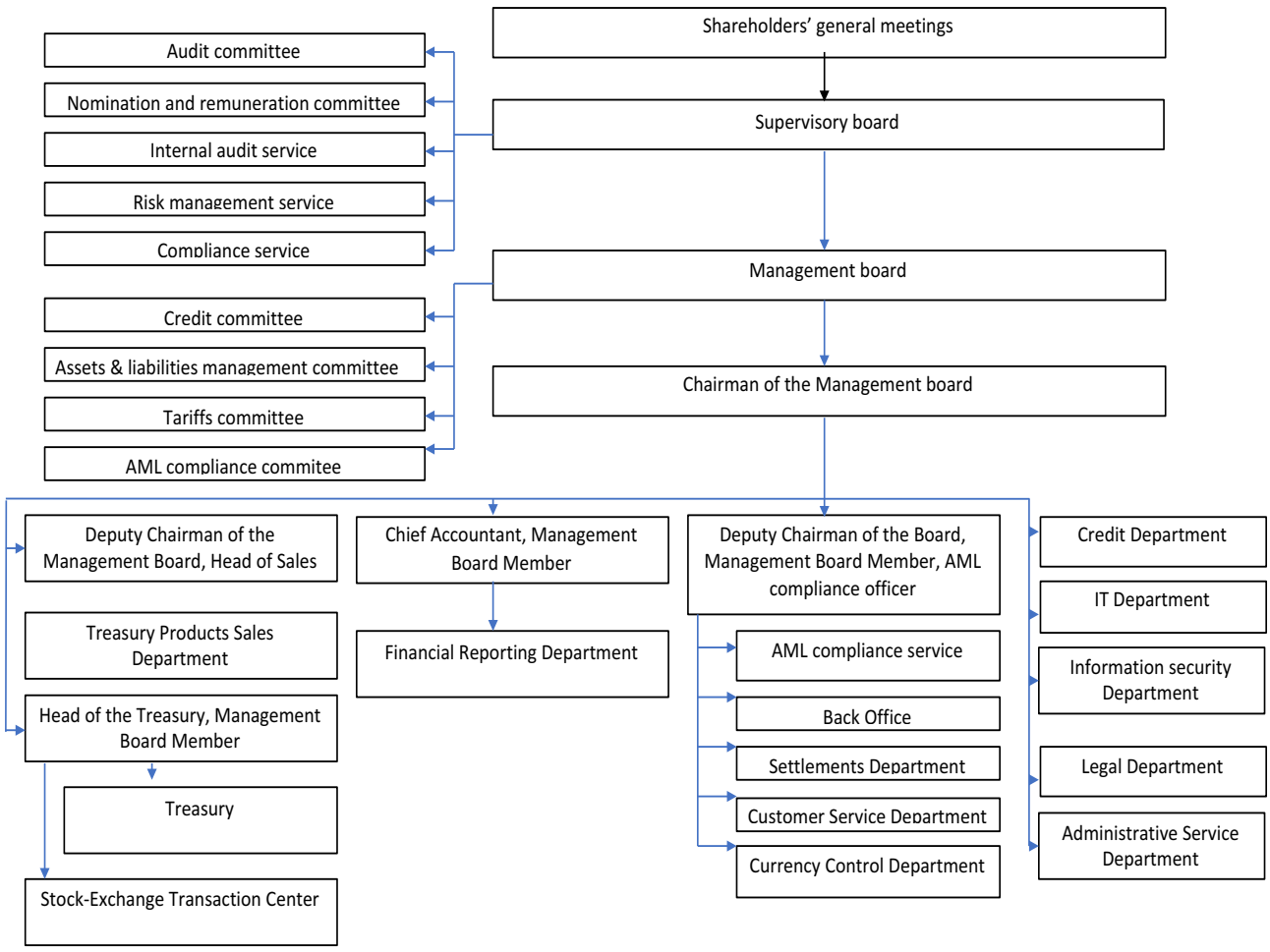
The supreme management body of the Bank is the General Meeting of Shareholders. During the period between the General Meeting of Shareholders, the Supervisory Board of the Bank exercises the protection of shareholders' rights, as well as control and regulation of the Management Board's activities within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

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

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

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

Organizational structure of the Bank



The number of staff employees makes 24 persons at the end of 2018. The Bank does not plan to increase or change significantly its personnel. The Bank has no economically autonomous structural subdivisions.

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

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

The following meetings were held in 2018.

Type of general meeting	ordinary	extraordinary
	X	
Date of the meeting	March 2, 2018	
Quorum of the meeting	99.990163 %	
Description		

At the meeting of the Supervisory Board (Minutes No. 6 dated January 18, 2018), a decision was made to hold the regular General Meeting of Shareholders, held on March 2, 2018 (Minutes of the General Meeting of Shareholders No. 8 dated March 2, 2018).

The Registration Commission, appointed by the person that convened the general meeting (the Supervisory Board), registered the shareholders to participate in the general meeting of shareholders.

The National Commission on Securities and Stock Market and shareholders that together hold more than 10 percent, did not control the state of registration of shareholders or their representatives to participate in the last general meeting.

Voting on agenda items at the general meeting by ballots.

List of issues that were considered at the regular General Meeting and the results of their consideration:

1. On election of members of the Counting Commission.

The decision made by the General Meeting:

To elect Nataliia Volodymyrivna Tarasenko as the Chairman of the Counting Commission to count the votes following the results of decisions of the shareholders on the agenda of the General Meeting of Shareholders of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD".

To elect Kateryna Serhiivna Plakhtiienko as the Member of the Counting Commission to count the votes following the results of decisions of the shareholders on the agenda of the General Meeting of Shareholders of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD".

2. On election of the Chairman and the Secretary of the General Meeting of Shareholders of the Bank.

The decision made by the General Meeting:

To elect Viktor Oleksandrovych Kokodynskyi as the Chairman of the General Meeting of Shareholders of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD".

To elect Liudmyla Hryhorivna Tavlui as the Secretary of the General Meeting of Shareholders of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD".

3. On reviewing the report of the Management Board of the Bank on the results of financial and economic activities of the Bank for 2017 and making a decision based on the results of its consideration.

The decision made by the General Meeting:

To approve the report of the Management Board of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" on the results of financial and economic activities of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" for 2017.

4. On reviewing the report of the Supervisory Board of the Bank for 2017 and making a decision based on the results of its consideration.

The decision made by the General Meeting:

To approve the report of the Supervisory Board of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" for 2017.

5. On termination of powers of members of the Supervisory Board.

The decision made by the General Meeting:

To terminate the powers of the Supervisory Board of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" consisting of:

- Kostiantyn Viktorovych Stetsenko – Chairman of the Supervisory Board
- Makar Yuriovych Paseniuk – Member of the Supervisory Board
- Artem Oleksandrovych Saprykin – Member of the Supervisory Board
- Mykola Volodymyrovych Stetsenko – Independent Member of the Supervisory Board
- Viktor Volodymyrovych Hladun – Independent Member of the Supervisory Board

6. On number of members of the Supervisory Board.

The decision made by the General Meeting:

To determine the number of members of the Supervisory Board of the Bank – 6 persons

7. On election of members of the Supervisory Board.

The decision made by the General Meeting:

The following persons were elected as the members of the Supervisory Board of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD":

- Kostiantyn Viktorovych Stetsenko
- Makar Yuriovych Paseniuk
- Artem Oleksandrovych Saprykin
- Mykola Volodymyrovych Stetsenko (Independent Member of the Supervisory Board)
- Viktor Volodymyrovych Hladun (Independent Member of the Supervisory Board)
- Oleh Mykhailovych Kurinnyi (Independent Member of the Supervisory Board)

8. On approval of the terms of agreements with the members of the Supervisory Board, determination of the size of their remuneration, election of the person authorized to sign them.

The decision made by the General Meeting:

To approve the terms of agreements concluded with the Chairman and members of the Supervisory Board of the Bank, as well as the size of their remuneration.

To elect the Chairman of the Management Board of the Bank S. A. Korchynska as a person authorized to sign agreements with the Chairman and members of the Supervisory Board of the Bank.

9. On reviewing the conclusions of the Bank's external audit for 2017 and approving measures based on the results of their consideration.

The decision made by the General Meeting:

To approve the report and conclusion of the external auditor BAKER TILLY UKRAINE LLC, based on the results of the annual financial statements of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" for 2017, without comments and additional measures.

10. On approval of the performance results and the annual report of the Bank for 2017.

The decision made by the General Meeting:

To approve the annual report (annual financial statements) of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" for 2017.

To approve the performance results of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" for 2017, namely profit in the amount of UAH 100,290,408.13.

11. On distribution of profits for 2017.

The decision made by the General Meeting:

To distribute the profit of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" according to performance results in 2017 in the amount of UAH 100,290,408.13 as follows:

- a share of profits in the amount of UAH 91,622,000.00 to be sent to increase the authorized capital of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD";
- a share of profits in the amount of UAH 5,014,520.41 to be sent to the reserve fund of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD";
- a share of profits in the amount of UAH 3,653,887.72 to be undistributed.

12. On changing the type of joint stock company of the Bank.

The decision made by the General Meeting:

To change the type of joint stock company of the Bank from a public joint stock company to a private joint stock company.

13. On changing the name of the Bank.

The decision made by the General Meeting:

To change the name of the Bank from PUBLIC JOINT STOCK COMPANY "BANK AVANGARD" to JOINT STOCK COMPANY "BANK AVANGARD".

14. Amendments to the internal documents of the Bank.

The decision made by the General Meeting:

To amend the Regulation on the General Meeting of Shareholders of the Bank and approve it as amended.

To amend the Regulation on the Supervisory Board of the Bank and approve it as amended.

To amend the Regulation on the Management Board of the Bank and approve it as amended.

To amend the Corporate Governance Code of the Bank and approve it as amended.

15. On increase in the authorized capital of the Bank.

The decision made by the General Meeting:

To increase the authorized capital of the Bank by UAH 91,622,000.00 by means of a share of profits received following the performance results of the Bank for 2017, by increasing the nominal value of shares.

To establish a new authorized capital of the Bank in the amount of UAH 300,120,000.00.

16. On issue of shares of a new nominal value.

The decision made by the General Meeting:

To issue the Bank's shares with a new nominal value by setting a new size of the nominal value of one share of the Bank in the amount of UAH 2,460.00, and approve the Decision to issue shares of a new nominal value.

17. On amendments to the Charter of the Bank and approval of the amended Charter of the Bank.

The decision made by the General Meeting:

To amend the Charter of the Bank and approve the amended Charter of the Bank, as well as authorize the Chairman of the Management Board of the Bank S. A. Korchynska to sign the amended Charter.

* Marked "X" in the corresponding columns.
** In percentage to the total number of votes.

On November 29, 2018, according to the decision of the Bank's sole shareholder, with the status of the minutes of the General Meeting of Shareholders, amendments to the terms and conditions of agreements concluded with the Chairman and members of the Supervisory Board of the Bank, as well as the amount of their remuneration were approved, and the person authorized to sign the agreements with the Chairman and members of the Supervisory Board of the Bank, Chairman of the Management Board of the Bank S. A. Korchynska, was elected.

There are no restrictions on the rights of participation and voting of shareholders at the general meeting.

The extraordinary general meeting of shareholders was not convened.

The general meeting of shareholders in the form of absentee voting was not held.

7.6. SUPERVISORY BOARD OF THE BANK.

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

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

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

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

As of January 1, 2018, the Supervisory Board of the Bank worked in the following composition:

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

The following persons were elected as the members of the Supervisory Board on March 2, 2018:

Members of the Supervisory Board (representatives of the shareholder):	K. V. Stetsenko M. Yu. Paseniuk A. O. Saprykin
Independent Members of the Supervisory Board:	M. V. Stetsenko V. V. Hladun O. M. Kurinnyi

K. V. Stetsenko was elected as the Chairman of the Supervisory Board on March 2, 2018.

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

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

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

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

The organizational form of the Supervisory Board is the meeting, at which the Supervisory Board made decisions in 2018 according to its competence determined by the Bank's Charter and the Regulations on the Supervisory Board.

During 2018, 40 meetings of the Supervisory Board were held, including joint meetings with the Management Board. All meetings of the Supervisory Board held are legitimate.

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

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

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

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

Persons, elected as the members of the Supervisory Board, may be re-elected for an unlimited number of times. The powers of a member of the Supervisory Board elected by cumulative voting, upon the decision of the General Meeting, may be early terminated

only subject to the simultaneous termination of powers of all members of the Supervisory Board. In such case, the decision on termination of powers of the members of the Supervisory Board shall be made by the General Meeting by a simple majority of votes of the shareholders, registered to participate in the meeting, who are the holders of voting shares on the relevant issue.

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

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

The Chairman of the Supervisory Board

The Chairman of the Supervisory Board is elected by the members of the Supervisory Board from their number by a simple majority of votes from the members of the Supervisory Board. The Supervisory Board may at any time re-elect the Chairman of the Supervisory Board. A member of the Supervisory Board, who was the Chairman of the Management Board during the previous year, may not be the Chairman of the Supervisory Board.

The Chairman of the Supervisory Board:

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

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

The members of the Supervisory Board may:

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

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

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

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

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

Duties of the members of the Supervisory Board:

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

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

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

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

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

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

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

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

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

The following committees of the Supervisory Board are established and operate in the Bank:

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

The Audit Committee of the Supervisory Board held 8 meetings during 2018. All meetings of the Audit Committee of the Supervisory Board are legitimate.

The Committee on Appointments and Rewards of the Supervisory Board held 5 meetings during 2018. All meetings of the Committee on Appointments and Rewards of the Supervisory Board were legitimate.

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

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

The remuneration of the members of the Supervisory Board is paid in the size established by the decisions of the General Meeting of Shareholders of the Bank (decisions of the sole shareholder), and specified in the Bank's annual financial statements for 2018 (Note 32 "Transactions with the Related Parties"). Except for individual members of the Supervisory Board, members of the Supervisory Board receive a fixed remuneration.

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

State authorities did not apply enforcement actions to the members of the Supervisory Board of the Bank in 2018.

7.7. MANAGEMENT BOARD OF THE BANK.

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

The competence of the Management Board includes resolving all issues related to the management of the Bank's current activities, except for issues that fall within the exclusive competence of the General Meeting and the Supervisory Board of the Bank. The General Meeting and the Supervisory Board may decide to transfer part of their respective powers to the competence of the Management Board except for the powers attributed to the exclusive competence of each of these management bodies of the Bank by the current legislation of Ukraine and the Charter of the Bank.

As of January 1, 2018, the Management Board of the Bank worked in the following composition:

The Chairman of the Management Board:	Svitlana Anatoliivna Korchynska
The Deputy Chairman of the Management Board:	Iryna Yaroslavivna Dvorzhanska
	Oksana Fedorivna Shveda
The members of the Management Board	Viktoriia Serhiivna Chechotkina
	Yurii Volodymyrovych Hulkevych

The members of the Management Board decided on the following on October 2, 2018:

- to dismiss Viktoriia Serhiivna Chechotkina on October 5, 2018 by agreement of the parties, and
- to elect (appoint) Olena Mykolaivna Trush as a member of the Management Board since October 8, 2018.

The organizational form of the Management Board is the meeting, at which the it made decisions in 2018 according to its competence determined by the Bank's Charter and the Regulations on the Management Board.

During 2018, 51 meetings of the Management Board were held, including joint meetings with the Supervisory Board of the Bank. All meetings of the Management Board held were legitimate.

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

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

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

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

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

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

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

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

The Chairman of the Management Board may, without limitation:

- act on behalf of the Bank without the power of attorney, including: represent the Bank in state institutions, enterprises of all forms of ownership and public organizations, in all law enforcement and regulatory authorities; make transactions on behalf of the Bank and carry out all legally binding actions; conclude and sign agreements, contracts;

- represent the Bank without a proxy, including in relations with other business entities and individuals in the territory of Ukraine and abroad;
- issue the powers of attorney on behalf of the Bank; distribute duties among the members of the Management Board of the Bank;
- issue orders and instructions binding on all employees of the Bank; employ and dismiss employees of the Bank, use incentives and take disciplinary action according to the current legislation of Ukraine, the Charter and internal documents of the Bank;
- establish forms, systems and procedure for payment of salaries to the employees of the Bank according to the current legislation of Ukraine, approve the staff schedule of the Bank and staff schedules of the separate units, determine the size of the salaries of all employees of the Bank;
- sign a collective agreement on behalf of the Bank; approve job descriptions of employees of the Bank;
- take measures for pre-trial settlement of disputes; sign claims, complaints and all documents relating to proceedings of claims and complaints; represent the Bank in courts with all rights granted by the law to the plaintiff, defendant, third party, including waive, in full or in part, the claims; recognize the claim; change the subject of the claim; conclude a settlement agreement; appeal against a court decision; file an enforcement order against a penalty or issue a power of attorney to commit the corresponding actions to the other person;
- participate in meetings of the Supervisory Board with the consultative capacity;
- perform other functions necessary to ensure the Bank's current activities.

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

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

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

The members of the Management Board have the right to:

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

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

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

4) initiate convening of meetings of the Management Board;

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

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

Duties of the members of the Management Board:

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

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

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

4) participate personally in meetings of the Management Board (including distantly), as well as attend the General Meeting at the invitation of the Chairman of the Supervisory Board or a person convening the meetings. If it is impossible to attend the General Meeting, inform the person, from whom the invitation was received, in advance, specifying the reasons for such impossibility;

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

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

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

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

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

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

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

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

The following committees of the Management Board have been operated during 2018:

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

Composition of committees as of December 31, 2018:

- Credit Committee:
  - The Chairman: I. Ya. Dvorzhanska
  - Members: Yu. V. Hulkevych, S. A. Korchynska, O. F. Shveda, O. M. Trush.
- Tariff Committee:
  - The Chairman: I. Ya. Dvorzhanska
  - Members: Yu. V. Hulkevych, S. A. Korchynska, O. F. Shveda, O. M. Trush.
- Asset and Liability Committee:
  - The Chairman: I. Ya. Dvorzhanska
  - Members: Yu. V. Hulkevych, S. A. Korchynska, O. F. Shveda, O. M. Trush.
- Financial Monitoring Committee:
  - The Chairman: I. Ya. Dvorzhanska
  - Members: O. V. Starostenko, V. A. Velychko, S. V. Tyshchenko, K. S. Plakhtiienko, V. O. Kokodynskyi, A. O. Zalieskyi.

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

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

Remuneration of the members of the Management Board is paid in the size established by the decisions of the Supervisory Board of the Bank, and specified in the Bank's annual financial statements for 2018 (Note 32 "Transactions with the Related Parties").

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

According to the results of the audit by the Deposit Guarantee Fund, the Bank received a request to remedy the violation, as well as a regular fee in the amount of UAH 133.23 was added and a penalty in the amount of UAH 70.73 was charged; and the Chief Accountant, a member of the Management Board, was brought to administrative liability.

The Bank paid penalties for late payment of income tax (overdue for 2 days) during 2018.

7.8. RISK MANAGEMENT SYSTEM OF THE BANK.

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

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

regarding the impact on the risks and/or the level of vulnerability (exposure) of the Bank to such risks.

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

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

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

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

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

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

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

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

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

- credit risk;
- liquidity risk;
- interest rate risk;
- market risk;
- currency risk;
- operational risk;
- compliance risk;
- reputation risk;
- strategy risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank implements operation of the internal control system by:

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

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

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

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

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

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

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

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

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

The Bank introduced the following forms of control:

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

The Bank introduced a three-level internal control system:

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

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

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

7.10. THE QUALITY MANAGEMENT SYSTEM.

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

- status of actions based on results of the QMS preliminary analysis;
- changes in external and internal factors during the reporting period related to the QMS;

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

According to the results of the Quality Management System analysis for 2018, it was established that:

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

7.11. INTERNAL AUDIT SERVICE.

The Internal Audit Service is an independent structural subdivision of the Bank, an integral part of the internal control system and reports to the Supervisory Board of the Bank. As of January 1, 2019, the Internal Audit Service subdivision has 1 employee – the Head of the Internal Audit Service.

The Internal Audit Service performed the following work in 2018:

- Carry out audits according to the approved Audit Plan for 2018;
- Support of external audit to confirm the annual financial statements according to the international standards (Baker Tilly Ukraine AF);
- Preparation of quarterly reports to the Management Board and the Supervisory Board;
- Monitoring of the incident base;
- Another current work.

The Internal Audit Service conducted thematic audits in 2018 according to the annual plan approved by the Supervisory Board. All scheduled audits are complete.

According to the audit results, relevant recommendations were provided (5 recommendations were provided for 2018).

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

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

7.12. EXTERNAL AUDITOR OF THE BANK.

By the decision of the Supervisory Board of the Bank (Minutes No. 33 dated October 22, 2018), the audit firm BAKER TILLY UKRAINE LLC was elected as the external auditor. Concerning the activities of BAKER TILLY UKRAINE LLC:

- the total experience of auditing is more than 18 years;
- a number of years during which BAKER TILLY UKRAINE LLC provides audit services to the Bank is 6 years;
- there were no cases of conflicts of interest and/or combinations of performing functions of the internal auditor during the period of cooperation with the Bank.
- there were no penalties imposed on BAKER TILLY UKRAINE LLC by the Audit Chamber of Ukraine during the year, as well as the facts of submitting the unreliable reporting by a financial institution, as confirmed by the auditor's report, revealed by the authorities that carry out the state regulation of financial services markets;
- there were no recommendations on the auditor's report by the authorities that carry out the state regulation of financial services markets.

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

7.13. SIGNIFICANT TRANSACTIONS.

By the decision of the Supervisory Board of the Bank (Minutes No. 3 dated January 11, 2018), the Bank is allowed to make significant transactions from January 1, 2018 to December 31, 2018 (inclusive) each amounting to UAH 333.00 million (inclusive) in respect of: conducting purchase/sale and REPO transactions of the domestic government loan bonds of Ukraine and/or deposit certificates of the National Bank of Ukraine; conducting purchase/sale transactions with foreign currency; attraction of financial resources in the interbank market; attraction of financial resources from customers, as well as implementation of credit transactions, which are fully provided with a cash cover and/or a pledge of property rights for a contribution to the Bank. When conducting the active transactions, the Bank shall adhere to the debt limit of one counterparty (mandatory economic norm N7, established by the National Bank of Ukraine) both during external settlements and during the validity period of this transaction, except for transactions under agreements that provide for the advance payments in favor of the Bank. The above limitations do not apply to transfer of funds between own correspondent accounts of the Bank (NOSTRO accounts) in correspondent banks, the size (limits) of which is determined by a separate decision on determination of the correspondent account balance limit.

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

The Bank carried out transactions with related parties under the general conditions in 2018. Transactions with related parties are mainly of the resource nature.

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

Information on the related-party transactions, on balances of the related-party transactions for 2018, income and expenses from the related-party transactions for 2018, total credits granted to the related parties and repaid by the related parties during 2018, as well as other rights and obligations under the related-party transactions at the end of the reporting period for 2018, is specified in the Annual Financial Statements of the Bank for 2018.

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

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

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

Each message is definitely checked and a feedback is given.

The Compliance Manager of the Bank – Viktor Oleksandrovych Kokodynskyi considers complaints (messages).

The Bank did not receive any complaints regarding the provision of financial services in 2018.

There are no lawsuits against the provision of financial services by the Bank in 2018.

8. CONCLUSION.

During the reporting 2018 year, the Bank has been performing its activities according to the requirements of the Corporate Governance Code of the Bank, the requirements of the current legislation of Ukraine, internal documents of the Bank, conducted income-generating activities, adhered to the strategy determined by the shareholders of the Bank and achieved performance targets and objectives for 2018.

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the financial audit

Opinion

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

- statement of financial position as of the end of December 31, 2018;
- statement of profit and loss and other comprehensive income for 2018;
- statement of cash flow for 2018 (direct method);
- statement of equity for 2018;
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), and meets the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine".

Basis for opinion

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

Emphasis of matter paragraph

We draw attention to Note 2 of the financial statements, which describes the increase in the uncertainty of the economic environment, where the Bank operates, that leads to a reduction in the period for planning and forecasting the key performance indicators. The Bank does not see grounds for significant changes in the main factors of its activities during the next 3 months. Our opinion on this issue was not modified.

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

Key audit matters are those matters that, in our professional judgment, were of the most significance during our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole and were taken into account in forming an opinion thereon. Upon that, we

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do not provide a separate opinion on these matters. We identified that matters described below are the key audit matters to be reflected in our report.

Key Audit Matter	How the key audit matter was addressed in the audit
Provisions for covering losses due to loans impairment, debtors, loans granted to other banks amount to UAH 55,875.	
See Notes 7, 8 and 4.4	
We have an increased focus on this area as a key audit matter due to the balance materiality on clients' loans and debtors, bank loans and debts, and the subjective nature of judgments used in impairment calculation. Provisions for covering losses due to impairment reflect assessment of the management of expected loss on portfolios of loans and debtors as of the reporting date. Assessment of the expected loan losses on financial tool is carried out in a way that reflects: the objective and probable amount determined by means of estimating a certain range of possible results, time value of money, reasonable and verifiable information about past events, current conditions and forecasts of future economic conditions, taking into account all reasonable and verifiable information, including the forecast one. Detection of a significant increase in credit risk, impairment and determination of the expected reimbursement amount includes certain assumptions and analysis of various factors, including the financial position of the borrower, expected future cash flows, market prices, available for observation, fair collateral value. The use of different models and assumptions may lead to different estimates of the provision for loans and debtors' impairment.	Our procedures included, but were not limited to the following: - Testing of the internal control system introduced by the management in terms of calculation of provisions for covering losses due to loans impairment and debtors on both individual and collective basis. - We also independently evaluated the appropriateness of management opinion regarding the used methodology of calculation and inputs for past events, current conditions and forecast information for calculating default probability factors, as well as collateral reimbursement and value. - Regarding provisions for loans impairment with identified individual depreciation marks, we have tested the assumptions underlying the impairment identification and its quantification, including analysis of the borrowers' financial position, forecasts for future cash flows and collateral valuation. Regarding provisions for loans impairment without identified individual depreciation marks, calculated on a collective basis, we tested the models used and the input data used in these models and their mathematical accuracy. We did not find any significant discrepancy based on the results of these tests.

Other information

The management staff is responsible for the other information. The other information comprises the Management Report for 2018, which includes a Corporate Management Report as a separate section (but is not financial statements and our auditors' report thereon) which we obtained prior to the date of this auditors' report, and the Annual information on the issuer of securities for 2018 (containing a Corporate Management Report), which we expect to receive after this date.

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

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

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

When we learn the Annual Information of the Issuer of Securities for 2018, if we come to the conclusion that it contains a material misstatement, we will need to inform on this matter those who have the highest authorities.

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

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

In preparing the financial statements, the management staff is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the management staff either intends to liquidate the Bank or to cease operations, or have no realistic alternatives but to do so.

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

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the users' economic decisions taken on the basis of these financial statements.

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

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

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

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

- conclude on the appropriateness of the going concern basis of accounting use by the management staff and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our auditors' report to the related disclosures of information in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained prior to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Purpose and duration of the audit task

We were appointed as auditors by the decision of the Supervisory Board of the Bank on October 22, 2018 to perform the statutory audit of the Bank's financial statements for the year ended on December 31, 2018. Total duration of the audit task on the statutory audit of the Bank's financial statements performing by us, without interruptions, taking into account the continuation of the powers obtained and reappointments, is 6 years.

Provision of non-audit services and independence

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

We have provided the Bank or the entities controlled by it with the following services, except for statutory audit services not disclosed in the financial statements or in the Management Report: assessment of the Bank's assets quality and eligibility of collateral for loans as of January 1, 2018, within the framework of fulfilling the requirements of the Terms of Reference for the assessment of stability of banks and banking system of Ukraine, approved by the decision of the Board of the National Bank of Ukraine No. 848 dated December 28, 2017.

Consistency with an additional report for the audit committee

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

Consistency of management report with financial statements

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

- the Management Report which includes a Corporate Management Report of JSC "BANK AVANGARD" for 2018, has been prepared in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", "Instructions on the Procedure for Preparation and Publication of Financial Statements of

Banks of Ukraine", approved by the NBU Resolution No. 373 dated October 24, 2011, and other applicable legislative and regulatory acts, and the information provided therein is consistent with the financial statements;

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

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

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

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

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

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Identification and assessment of potential risks related to violations	Actions in response to assessed risks
Stock Market" and applicable regulatory acts of the National Securities and Stock Market Commission, the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets".	

Other matters

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

- information contained in the Corporate Management Report as a part of Management Report of JSC "BANK AVANGARD" for 2018, in accordance with the requirements of clauses 1–4, part three of Article 40^1 of the Law of Ukraine "On Securities and Stock Market", was prepared in accordance with the requirements of the Law of Ukraine "On Securities and Stock Market" and other applicable legislative and regulatory requirements, and is consistent with the financial statements;

- in our opinion the Corporate Management Report as a part of the Management Report of JSC "BANK AVANGARD" for 2018, responsibility for which is borne by the management staff of the Bank, contains all the information required in clauses 5–9, part three of Article 40^1 of the Law of Ukraine "On Securities and Stock Market".

Other legislative and regulatory requirements

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

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

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

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

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

The purpose of the audit was to express an opinion on whether the Bank's annual financial statements for 2018 accurately reflect the financial position of the Bank in accordance with International Financial Reporting Standards in all material respects.

The information contained in this report is the result of performing the procedures by us within the audit of the Bank's annual financial statements for 2018. The mentioned information is obtained on the basis of selective testing and in the volumes required for audit procedures planning and conducting in accordance with the requirements of International Standards on Auditing.

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

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

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

As a result of our audit procedures within the annual financial statements audit, we have found no evidence of non-compliance by the Bank with the requirements of the National Bank of Ukraine on the compliance (accuracy of reflection) of data on bank's assets and liabilities distribution by maturity periods in a file with indicators of statistical reporting A7X "Data on the structure of assets and liabilities by periods" prepared by the Bank for submission to the National Bank, as of January 1 of the year following the reporting one, namely as of January 01, 2019.

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

internal control

As a result of our audit procedures within the annual financial statements audit, we have found no evidence that the Bank's structure and internal control measures do not meet the requirements of laws and regulations of NBU, in particular, the Resolution of the National Bank of Ukraine No. 867 dated December 29, 2014 "On Approval of the Regulation on organization of internal control in the banks of Ukraine".

internal audit

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

credit exposure on active banking transactions

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

As a result of our audit procedures within the annual financial statements audit, we have found no material deviations from the credit risk calculation made by the Bank as of December 31, 2018.

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

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

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

The authorized capital of the Bank as of December 31, 2018 is sufficient and amounts to UAH 300,120 according to the Bank. As it is noted in Note 18 "Authorized Capital", throughout a year the Bank registered an increase in the notional amount of ordinary registered shares at the expense of the previous years profit.

As of December 31, 2018, the regulatory capital of the Bank amounts to UAH 322,467, that corresponds to the requirements of laws and regulations of NBU (see Note 28 "Capital Management").

accounting record-keeping

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

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

According to the Requirements for the auditors' report submitted to the National Securities and Stock Market Commission upon obtaining a license for professional activity in the securities market approved by the decision of the National Securities and Stock Market Commission (hereinafter referred to as NSSMC) No. 160 dated February 12, 2013, we provide the following information and conclusions:

basic information about the Bank

full name – JOINT-STOCK COMPANY "BANK AVANGARD"

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

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

date of state registration – April 23, 2013

principal activities – other types of monetary intermediation

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

list of participants (shareholders) (individuals – surname, name and patronymic, legal entities – name, legal form, location), owning 5 % or more shares (stocks) as of the date of drawing up the auditors' report, indicating the actual number of this size – WESTAL HOLDINGS LTD (location: Arch. Makariou III, 140, Raptopoulos Building, 3rd floor, office 301, 3021 Limassol, Republic of Cyprus), which is a holder of substantial share in the Bank and holds directly 100.00 % of the authorized capital of the Bank as of January 01, 2019 (see Note 1 "General information on the Bank activity").

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

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

regarding the compliance of the authorized capital with the constituent documents

The authorized capital of the Bank as of December 31, 2018 corresponds to the constituent documents of the Bank and amounts to UAH 300,120.

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

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

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

Minutes of the Bank GMS	Decisions on the authorized capital	Documents on increase/payment
No. 5 dated April 24, 2015	Increase the authorized capital by UAH 14,518,000 at the expense of profit part by means of shares nominal value increasing	Memo slips: No. 2244 dated September 16, 2015, for the amount of UAH 14,516,572, No. 2245 dated September 16, 2015, for the amount of UAH 1,428.
No. 6 dated April 08, 2016	Increase the authorized capital by UAH 25,864,000 at the expense of profit part by means of shares nominal value increasing	Memo slips: No. 2967 dated May 18, 2016, for the amount of UAH 25,861,456, No. 2966 dated May 18, 2016, for the amount of UAH 2,544.
No. 7 dated April 07, 2017	Increase the authorized capital by UAH 46,116,000 at the expense of profit part by means of shares nominal value increasing	Memo slips: No. 2820 dated April 11, 2017, for the amount of UAH 46,111,464, No. 2821 dated April 11, 2017, for the amount of UAH 4,536.
No. 8 dated March 02, 2018	Increase the authorized capital by UAH 91,622,000 at the expense of profit part by means of shares nominal value increasing	Memo slips: No. 1218 dated March 03, 2018, for the amount of UAH 9,012, No. 1219 dated March 03, 2018, for the amount of UAH 91,612,988.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2018, the Bank's financial investments composition and structure are as follows:

- Investments in government bonds with a book value of UAH 509,679.
- Investments in NBU deposit certificates with a book value of UAH 190,250.

(see Note 9 "Investments in securities")

basic information about the terms of the audit contract

date and number of the audit contract – No. 199-31/18 dated October 23, 2018

date of the audit commencement and completion – October 24, 2018 and February 28, 2019.

Key audit partner

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

Director General

BAKER TILLY UKRAINE LLC Oleksandr Pochkun

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

Partner

BAKER TILLY UKRAINE LLC Hahik Nersesian

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

Auditor

BAKER TILLY UKRAINE LLC Oleksandr Luksha

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

March 20, 2019

Kyiv, Ukraine

Basic information about the audit firm

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

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

Statement of Financial Position as at 31 December 2018

(in UAH thousand)

	(Note)	2018	2017
Assets			
Cash and cash equivalents	6	15 524	25 203
Due from other banks	7	42 051	229 102
Loans and advances to customers	8	157 361	125 166
Investments in securities	9	699 929	971 339
Derivative finance assets	10	4 865	723
Current tax receivables		4 080	-
Deferred tax assets	24	5 235	578
Fixed and intangible assets	11	1 941	1 900
Other assets	12	3 051	1 095
Total assets		**934 037**	**1 355 106**
Liabilities			
Due to banks	13	-	171 556
Due to customers	14	586 826	852 370
Derivative finance liabilities	15	2 418	1 907
Current tax liabilities		-	8 680
Provisions for liabilities	16	101	100
Other liabilities	17	22 479	9 353
Total liabilities		**611 824**	**1 043 966**
Equity			
Share capital	18	300 120	208 498
Reserves and other funds		9 577	4 562
Revaluation reserves	19	(1 672)	(2 283)
Retained earnings (losses)		14 188	100 363
Total equity		**322 213**	**311 140**
Total equity and liabilities		**934 037**	**1 355 106**

Authorized for issue and signed by:

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

Chief Accountant _____ **/O. Trush /**

Statement of Comprehensive Income for 2018

(in UAH thousand)

	(Note)	2018	2017
Interest income	21	172 752	127 002
Interest expenses	21	(49 692)	(60 752)
Net interest income/(Net interest expense)		**123 060**	**66 250**
Fee and commission income	22	13 416	11 502
Fee and commission expenses	22	(1 709)	(833)
Result from transactions with financial instruments, that are recognized at fair value through profit or loss		(1 002)	(3 898)
Gains on securities trading transactions in trading portfolio		(8 492)	859
Gains on foreign exchange transactions		10 087	15 069
Gains on foreign currency revaluation		(16 404)	15 590
Gains/(losses) that arise from initial recognition of financial assets at an interest rate that is higher or lower than the market rate		(14 813)	
Net (increase)/decrease provision for impairment of financial assets		42 709	45 477
Net (increase)/decrease in provisions for liabilities	16	(1)	70
Net gain/(loss) from derecognition of financial assets carried at amortized cost		1 637	-
Other operating income		18	400
Salaries and wages	23	(24 821)	(21 169)
Depreciation and amortization	23	(585)	(516)
Administrative and other operating expenses	23	(110 326)	(6 494)
Profit / (Loss) before tax		**12 774**	**122 307**
Income tax expenses	24	(2 309)	(22 016)
Net profit for the year		**10 465**	**100 291**
Other comprehensive income			
Items to be reclassified in profit or loss			
Revaluation of available-for-sale securities in trading portfolio		745	(2 688)
Income tax related to other comprehensive income	24	(134)	484
Other comprehensive income after tax		611	(2 204)
Total comprehensive income for the year		**11 076**	**98 087**
Net profit/(loss) per an ordinary share (UAH)	**25**	**85,78**	**822,06**

Authorized for issue and signed by:

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

Chief Accountant _____ **/O. Trush /**

Statement of Cash Flows for 2018 (direct approach)

(in UAH thousand)

	(Note)	2018	2017
Cash flows from operating activities			
Interest received		214 498	118 099
Interest paid		(50 832)	(65 131)
Fee and commission income		13 398	11 786
Fee and commission expenses		(1 714)	(845)
Financial derivative instruments operating result, that are recognized at fair value through profit or loss		(40 194)	(5 613)
Gains from foreign exchange transactions		10 087	28 216
Other operating income		19	-
Staff costs paid		(24 496)	(19 591)
Administrative and other operating expenses paid		(112 398)	(6 157)
Income tax paid		(19 820)	(14 522)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**(11 452)**	**46 242**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		179 000	69 700
Net (increase)/decrease in loans and advances to customers		(71 242)	(84 391)
Net (increase)/decrease in other financial assets		263	-
Net (increase)/decrease in other assets		1	17
Net increase/(decrease) in due to banks		(171 278)	85 123
Net increase/(decrease) in due to customers		(264 681)	(163 335)
Net increase /(decrease) in other financial liabilities		12 675	(1 514)
Net cash flows from/(used in) operating activities		**(326 714)**	**(48 158)**
Cash flows from investment activities:			
Purchase of available-for-sale securities in trading portfolio		(13 098 242)	(9 804 642)
Proceeds on disposal of available-for-sale securities in trading portfolio		13 402 293	9 538 344
Purchase of held-to-maturity securities in trading portfolio		(14 315 000)	(22 579 667)
Proceeds on redemption of held-to-maturity securities in trading portfolio		14 260 000	22 564 911
Acquisition of fixed assets		(296)	(192)
Acquisition of intangible assets		(314)	(176)
Net cash flows from/(used in) investing activities		**248 441**	**(281 422)**
Net cash flows from/(used in) financing activities			**-**
Effect of changes in official foreign exchange rate of the National Bank of Ukraine on cash and cash equivalents		**(1 831)**	**(1 167)**
Net increase /(decrease) in cash and cash equivalent		**(80 104)**	**(330 747)**
Cash and cash equivalents, at the beginning of the year	**6**	**150 655**	**481 402**
Cash and cash equivalents, at the end of the year	**6**	**70 551**	**150 655**

Authorized for issue and signed by:

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

Chief Accountant _____ **/O. Trush /**

Statement of Changes in Equity for 2018

(in UAH thousand)

	Share capital	Reserve fund	Revaluation reserve	Retained earnings	Total
Balance as at 31 December 2016	**162 382**	**2 134**	**(79)**	**48 616**	**213 053**
Increase in nominal value of shares	46 116	-	-	(46 116)	-
Distribution of previous year's profit	-	2 428	-	(2 428)	-
Total comprehensive income	-	-	(2 204)	100 291	98 087
Balance as at 31 December 2017	**208 498**	**4 562**	**(2 283)**	**100 363**	**311 140**
IFRS 9 adoption effect	-	-	-	(3)	(3)
Adjusted balance as at 31 December 2017	**208 498**	**4 562**	**(2 283)**	**100 360**	**311 137**
Increase in nominal value of shares	91 622	-	-	(91 622)	-
Distribution of previous year's profit	-	5015	-	(5 015)	-
Total comprehensive income	-	-	611	10 465	11 076
Balance as at 31 December 2018	**300 120**	**9 577**	**(1 672)**	**14 188**	**322 213**

Authorized for issue and signed by:

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

Chief Accountant _____ **/O. Trush /**

Note 1. Corporate information

The financial statements have been prepared in accordance with International Financial Reporting Standards based on operating results of JOINT-STOCK COMPANY "BANK AVANGARD". The reporting year is 2018.

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

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

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

In 2014 Westal Holdings Ltd. (location: Arch. Makarios III Avenue, 140, Raptopoulos Building, 3rd floor, office 301, 3021 Limassol, Cyprus) became the Shareholder of the Bank with a substantial holding in it. As at 1 January 2019, Westal Holdings Ltd. Directly holds 100,00% of the Bank's share capital.

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

- ICU Holdings Limited (location: Trident Chemberz, P.O. Box 146, Road Town, Tortola, British Virgin Islands), which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
- Naremius Holding Ltd indirectly owing 41,7095% of shares in the Bank through ICU Holdings Limited, which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
- Filtesa Holdings Ltd indirectly owing 41,7095% of shares in the Bank through ICU Holdings Limited, which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd

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

- individual Kostiantyn Stetsenko (residence: Ukraine, Kyiv) indirectly owing 41,7095% of shares in the Bank through 100% stockholding of Naremius Holdings Ltd, through ICU Holdings Limited, which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
  - 0,0098% of shares in the Bank through other legal entities ;
- individual Makar Pasenyuk (residence: Ukraine, Kyiv region, Vyshgorod) indirectly owing 41,7095% of shares in the Bank through 100% stockholding of Filtesa Holdings Ltd, through ICU Holdings Limited, which indirectly owns 100% of shares in the Bank through 100% stockholding in Westal Holdings Ltd.

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

On 07/02/2019, an independent rating agency "Credit-Rating" reaffirmed the Bank's credit rating at uaAAA level; a forecast is "stable". A rating report can be found by reference http://www.avgd.ua/topublish/CR_Avangard_ua_070219.pdf

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

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

Note 1. Corporate information (continued)

On 27 March 2018 the Bank change its type from public to private joint-stock company, and its name from PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" to the BANK AVANGARD JOINT STOCK COMPANY.

In 2018, the Bank confirmed the compliance of its procedures with the requirements of international standards regarding the quality management system ISO 9001 and the information security management system ISO 27001. During the next years, the Bank plans to comply with the requirements of these international standards. The Bank is going to build a system for managing the continuity of business under the international standard ISO 22301 by the end of 2021.

In 2019-2021, the Bank will also implement anti-corruption procedures according to the international standard ISO 37001, which becomes popular in the world.

As at the end of the year, the Bank's customer base is formed by legal entities-businesses (148 customers), non-bank financial institutions (36 customers), private customers (27 customers) and individual entrepreneurs (4 customers). The bank maintains 574 accounts and serves 215 customers.

Strategic goal

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

The Strategic development plan of JSC "BANK AVANGARD" is reviewed and adjusted taking into account changes in the economic situation in Ukraine and the business environment in the banking sector. This year it is planned to expand the client base and increase customer's balances, activity in the interbank market and apply the conservative corporate client lending policy. Due to changes in market conditions, the Bank intends to reduce the portfolio of securities and to introduce new products with an accent on the growth of the share of commission income. In order to attract new clients and promote of the Bank's services, it is planned to improve all channels of sales and to optimize the operational procedures.

Types of banking activities

The Bank performs banking operations in the money and foreign exchange markets in accordance with the Banking License No. 269 dated 5 July 2013, the General License for conducting currency transactions No. 269-2 and the Annex to the General License for conducting currency transactions No. 269-2 issued by the National Bank of Ukraine on 10 February 2014.

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

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

Note 1. Corporate information (continued)

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

In 2018, the National Bank of Ukraine has applied to the Bank no restrictions to limit activities performed by the Bank according to permits and licenses granted; there has been also no restrictions regarding the ownership of assets.

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

There were no bankruptcy proceedings or arbitrations on the Bank's resolution; no decisions were made on the Bank's termination or bankruptcy by the highest governing body of the Bank or the court.

No borrowings or loans exceeding 25% of the Bank's total assets were received or provided.

Performance indicators in 2018

As at 31 December 2018, the Bank's assets amounted to UAH 934 037 (as at 31 December 2017 – UAH 1 355 106 thousand). The basic constituents of assets are highly liquid assets and interbank transactions.

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

As at 31 December 2018, the Bank's liabilities amounted to UAH 611 824 thousand (2017: UAH 1 043 966 thousand). The resource base is formed by customer assets, including short-term funds of legal entities and individuals. As at 31 December 2018, the portfolio of customer deposits amounted to UAH 586 826 thousand (2017: UAH 852 370 thousand).

As at 31 December 2018, the Bank's equity amounted to UAH 322 213 thousand (2017: UAH 311 140 thousand). The main component of equity is the Bank's share capital.

As at 31 December 2018, the Bank's regulatory capital amounted to UAH 322 467 thousand, including tier I capital in the amount of UAH 308 280 thousands and tier II capital in the amount of UAH 14 187 thousand.

Note 1. Corporate information (continued)

During 2018, the Bank adhered to the economic standards of the National Bank of Ukraine, which as at 31 December 2018 had the following indicators:

	Characteristic value	As at 31 December 2018	As at 31 December 2017
regulatory capital ratio (N1)	UAH200 000 ths.	UAH 322 467 ths.	UAH 311 929 ths.
regulatory capital adequacy ratio (N2)	Not less than 10%	60,38%	67,07%
instant liquidity ratio (N4)	Not less than 20%	53,44%	31,74%
current liquidity ratio (N5)	Not less than 40%	122,68%	85,24%
short-term liquidity ratio (N6)	Not less than 60%	115,65%	74,61%

Following the results of 2018, the Bank's activities are income-generating, the Bank received net profit amounting to UAH 10 465 thousand.

Corporate governance

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

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

Note 1. Corporate information (continued)

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

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

As at the year-end, the number of employees at the Bank is 24 persons.

Risk management system

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

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

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

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

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

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

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

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

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

Note 1. Corporate information (continued)

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

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

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

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

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

According to the State Statistics Service, the consumer price index (CPI) decelerated from 10 % to 9.8 % within the year in December 2018. In particular, the deceleration in inflation was due to the decrease in prices for petroleum products in Ukraine against the background of cooling world oil prices. The actual inflation rate at the end of the year was slightly lower than the last forecast of the National Bank of Ukraine (10.1%). In case of consolidation of the positive inflation trends, the National Bank of Ukraine may resort to easing monetary policy, that is, to lower the discount rate.

According to preliminary data of the monetary and credit statistics of the National Bank of Ukraine, the credit portfolio of the banking system increased by 6 %, deposit base – by 4 % in 2018. Credits to households in hryvnia grew the most, which increased by 31 % over the year. Due to the exchange rate stability and the interest rate rise during 2018, customers of the banks gave the increasing preference to the deposits in the national currency: total deposits in hryvnia increased by 10 % during the year, while customers' funds in foreign currency decreased by 2 %.

At the last meeting on monetary policy (December 13, 2018), the Management Board of the National Bank of Ukraine decided to keep the discount rate unchanged at the level of 18.0 % per annum. According to estimates of the Management Board of the National Bank of Ukraine, the current and projected monetary conditions are now severe enough to ensure a decline in inflation up to 5 % in 2020. Moreover, the National Bank of Ukraine changes the operational design of the monetary policy for more flexible response to changes in liquidity of the banking system from the beginning of a new period of obligatory reserve maintenance. The previous increases in the key rate and the government's need for funds resulted in a rise in the returns from the short-term domestic government loan bonds in hryvnia.

Instead, the decrease in value of the interbank resources in December is due to the positive balance of currency interventions of the National Bank of Ukraine and significant budgetary expenditures. As a result, the UIIR fluctuated within the rate limits of the National Bank of Ukraine under the permanent access tools, reaching its lower limit.

Transmission from previous increases in the discount rate, market factors had also an impact on the dynamics of rates. These factors include competition of the banks for customers and further growth of the consumer's demand for credits.

The foreign exchange market situation remained favorable during December – the offer of foreign currency from customers of the banks prevailed demand for it. In particular, the net sales of foreign currency by the population resumed in the cash market. The National Bank of Ukraine remained its presence on the interbank foreign exchange market in order to reduce the exchange rate volatility.

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

Given the above, the management of the Bank concludes increasing uncertainty of the economic environment in which the Bank operates, which leads to a reduction of the planning and forecasting of key performance indicators period. To 3 months, the Bank observes no reason for significant changes of main factors of its activities.

Note 3. Basis of presentation

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

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

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

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

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

- full coverage - all banking transactions are to be registered on accounts without any exceptions. The financial statements must contain all information about actual and potential effects of the Bank's operations that may affect the decisions made according to it;
- continuity - the Bank's assets are valued on the assumption that the Bank is a going concern and remains active in the boundless future. If the Bank plans to scale down its activities, such intention shall be recorded in the financial statements;
- consistency - the Bank's permanent (year on year) application of accounting policies selected. Changes in the accounting method are possible only in cases stipulated by international standards and national regulations of accounting and require additional justification and disclosures in the financial statements.
- accrual and correspondence of income and expenses – in order to determine the reporting period results, the income for the reporting period shall be reconciled with the expenses incurred to obtain such income. Income and expenses are disclosed in the accounting records and financial statements when incurred regardless of the date of receipt or payment of cash assets. Income represents increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Expenses represent decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants;
- autonomy - all asset and liability accounts of are measured separately and disclosed in detail;
- prudence – prudence requires that accountants should exercise a degree of caution in the adoption of policies and significant estimates such that the assets and income of the entity are not overstated whereas liability and expenses are not under stated;
- substance over form - is an accounting concept which requires transactions to be accounted for according to their substance and not merely their legal form.

Going concern

During the first quarter of 2018 the share capital has been increased up to UAH 300 120 thousand through capitalization of retained earnings, additional contributions of the Shareholders or raising funds from investors.

Note 3. Basis of presentation (continued)

According to the Resolution of the Board of the National Bank of Ukraine No.464 dated 08/06/2014, the Bank is required to increase its share capital up to the amount required by part one of Article 31 of the Law of Ukraine "On Banks and Banking".

The enhancement of the share capital is planned through capitalization of retained earnings, additional contributions of the Shareholders or raising funds from investors.

There are no plans regarding termination of the Bank's activities.

These financial statements have been prepared on the assumption of the Bank's ability to continue as a going concern.

Note 4. Summary of significant accounting policies

Note 4.1. Core activities

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

During 2018 the Bank's activities were focused on expanding the customer base, improving key business processes and customer service technologies, updating banking services in response to changes occurring in the country and society.

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

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

Note 4.2. Basis of preparation

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

Fair value – is the amount on which an asset can be exchanged, or a liability settled during the implementation of an agreement on general conditions between knowledgeable unrelated parties acting on a voluntary basis. Fair value is the current bid price for financial assets and financial liabilities for the bid listed on the active market. A financial instrument is considered so that is quoted in an active market, if the quotes for this financial instrument are readily and regularly available on the stock exchange or other institution and those prices represent actual and regularly occurring market transactions on general terms. To determine the fair value of certain financial instruments for which there is no information about market prices from external sources, the valuation techniques are used such as discounted cash flow, valuation models that are based on data about the latest agreement made between unrelated parties, or analysis of financial information on investment objects. The use of valuation techniques may require assumptions not supported by observable market data. The information in the financial statements is disclosed in cases when changing of any such assumptions by possible alternative may result in significantly different profit, income, total assets or total liabilities.

Note 4. Summary of significant accounting policies (continued)

Historical cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the acquisition date, which includes transaction costs. Historical cost valuation is applied to equity instruments that do not have a quoted market prices in an active market, and fair value of which cannot be reliably measured. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if an entity had not acquired, issued or disposed of a financial instrument. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. In addition to assessment methods in recognition of assets, the Bank uses various methods to bring the value of financial instruments and assets to fair value through the accrual of income and expenses, including using the effective interest rate method, formation of special-purpose bank reserves, revaluation to fair value, depreciation of non-current assets, etc.

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

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

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

Note 4.3. Initial recognition of financial instruments

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

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

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

Note 4. Summary of significant accounting policies (continued)

Note 4.3.1. Classification and evaluation

Financial assets

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

Types of business models of the Bank:

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

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

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

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

1) the amortised cost (AC);

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

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

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

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

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

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

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

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

Note 4. Summary of significant accounting policies (continued)

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

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

Financial liabilities

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

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

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

3) financial guarantee, bank guarantee, surety agreements;

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

Note 4.4. Impairment of financial assets

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

• financial assets assessed at the depreciated cost;

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

other comprehensive income;

• loan commitments and financial guarantees;

• financial receivables.

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

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

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

Note 4. Summary of significant accounting policies (continued)

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

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

in the accounting.

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

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

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

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

Reserves are divided into:

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

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

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

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

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

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

Note 4.5. Derecognition of financial instruments

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

Note 4. Summary of significant accounting policies (continued)

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

Note 4.6. Cash and cash equivalents

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

Note 4.7. Due from other banks

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

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

Note 4.8. Loans and advances to customers

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

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

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

Note 4.9. REPO contracts

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

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

Note 4. Summary of significant accounting policies (continued)

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

During the reporting year, the Bank portfolio held at fair value through other comprehensive income comprised treasury bonds, deposit certificates of the National Bank of Ukraine and the bonds of economic entities.

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

The fair value of securities traded on organized markets is determined by their market value. If quoted market prices for securities are not available, the Bank uses the following methods to determine the fair value:

- a reference to the market price of a similar instrument;
- analysis of discounted cash flows using KIACR.

All securities held at fair value through other comprehensive income at the reporting date are subject to review for impairment. The Bank recognizes impairment of securities in case of loss of economic benefits in the amount of excess of the carrying amount of securities over the recoverable amount. Provisions for impairment of securities are created monthly in accordance with the expectations approved by the decision of the Credit Committee. At the year-end, the Bank recognized no impairment of available-for-sale securities.

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

During 2018, the Bank carried out transactions under REPO contracts accounted for as credit transactions with the recognition of interest income and continued recognition of securities held at fair value through other comprehensive income under REPO transactions.

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

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

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

During 2018, the Bank's portfolio of securities carried at amortized cost comprised only deposit certificates of the National Bank of Ukraine.

Note 4.12. Fixed assets

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

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

Note 4. Summary of significant accounting policies (continued)

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

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

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

The Bank's accounting policies for 2018 provide for the following useful lives of fixed assets:

- machinery and equipment -5 years;
- furniture and fixtures – 4 years;
- other non-current tangible assets – 2,5 years (according to the term of the premises lease agreement).

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

Note 4.13. Intangible assets

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

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

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

In 2017, during conduction of the annual inventory of intangible assets, the Bank neither changed the expected economic benefits from the use of intangible assets and fixed assets, nor reviewed deadlines of useful lives for commissioned intangible assets.

Note 4.14. Derivative financial instruments

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

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

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

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

Note 4. Summary of significant accounting policies (continued)

Note 4.15. Funds raised

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

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

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

Note 4.16. Provisions for liabilities

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

Note 4.17. Income tax

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

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

Income tax rate amounts to 18%.

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

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

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

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

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

In 2018 the Bank recorded the taxable amount of UAH 12 774 thousand.

Note 4.18. Share capital

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

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

Note 4.19. Dividends

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

Note 4. Summary of significant accounting policies (continued)

Note 4.20. Income and expense recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 4. Summary of significant accounting policies (continued)

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

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

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

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

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

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

Note 4.21. Foreign currency revaluation

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

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

The official foreign exchange rates as at 31 December 2018 were as follows:

840=USD=100=UAH 2 768,8264

978=EUR=100=UAH 3 171,4138 грн

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

The Bank's Management policy regarding the risk of losses due to changes in foreign exchange rates is disclosed in Corporate information in 2017 and Note "Financial risk management".

Note 4. Summary of significant accounting policies (continued)

Note 4.22. Mutual offset of assets and liabilities

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

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

Note 4.23. Employee benefits and related charges

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

Note 4.24. Business segment reporting

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

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

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

During 2017, the Bank did not apply transfer pricing methods in the preparation of financial statements by business segments, given the characteristics of the organizational structure.

Note 4.25. Significant accounting estimates and assumptions

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

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

Related party transactions

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

Note 4. Summary of significant accounting policies (continued)

Initial value of financial instruments

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

Going concern

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

Note 4.26. Related party transactions

During 2017, the Bank carried out transactions with related parties, detailed information regarding which is disclosed in the relevant note.

Note 4.27. Accounting policies effective prior to 2018

Initial recognition of financial instruments

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

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

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

Impairment of financial assets

Financial assets, other than financial assets at fair value through profit and loss, are assessed for impairment indicators at the end of each reporting period. Impairment losses are recognized in profit or loss when incurred. Financial assets are considered impaired when there is an objective evidence that as a result of one or more events occurred after the initial recognition of a financial asset there was a negative effect on the estimated future cash flows from investments.

The main events that indicate the impairment of a financial asset are as follows:

- significant financial difficulties of a customer;
- breach of a contract, such as default or delinquency in interest or principal payments;
- debt restructuring (for economic or legal reasons related to financial difficulties of a debtor), that would not otherwise be considered by the Bank;
- high probability of bankruptcy or financial reorganization of a borrower;
- extinction of an active market for a financial asset because of financial difficulties;
- credit operation claimed by the debtor (including through legal action);
- other events objectively evidencing the impairment of a financial asset.

Note 4. Summary of significant accounting policies (continued)

For financial assets measured at amortized cost, the amount of the impairment loss represents the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate for the relevant financial asset.

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

Note 5. New and revised standards not entered into force

The Bank adopted the following standards to be applied from January 1, 2018:

IFRS 9 – "Financial tools".

The Bank assesses all financial assets at the fair value that are currently assessed at the fair value.

	Category		Book value IAS 39 as at 31 Dec 2017	IFRS 9 transition effect		Book value IFRS 9 as at 1 Jan 2018
	IAS)39	IFRS 9		ECL	Other	
Cash and cash equivalents	Loans an receivables	Amortised cost	25 203	-	-	25 203
Due from other banks	Loans an receivables	Amortised cost	229 102	(1 588)	-	227 514
Loans and advances to customers	Loans an receivables	Amortised cost	125 166	2 107	-	127 273
Investments in securities	Available for sale	FVTOCI	971 339	(519)	-	970 820
Derivative finance assets	Financial assets at fair value through profit or los	FVTPL	723	-	-	723
Other assets	Loans an receivables	Amortised cost	1 095	(3)	-	1 092
Total financial assets			1 352 628	(3)	-	1 352 625

The effect of IFRS 9 application made (3) thousand UAH, which is shown in the Statement of Equity.

IFRS 15 – "Revenue from Agreements with Customers" came into force on January 1, 2018.

IFRS 2 – "Classification and Assessment of Share-Based Payment Transactions" came into force on January 1, 2018.

Standards that were issued, but have not come into force yet

As of the date of approval of these financial statements for issue, such standards and interpretations, as well as amendments to the standards were issued, but have not come into force yet as of January 1, 2019.

Note 5. New and revised standards not entered into force (continued)

The clarification of IFRS 3 "Business Combinations" and IFRS 11 "Collaborative Activities" appears.

In particular, IFRS 3 now requires a reassessment of a business share under circumstances where the entity obtains control over a business, which is a collective operation. This requirement is associated with positioning of such agreement as the staged business combinations. Instead, IFRS 11 clarifies the scope for joint control: when the enterprise obtains joint control over a business that is a collective operation, the enterprise does not reassess the previously recognized share in that company.

IAS 12 "Income Taxes" undergo minor changes. In particular, § 52B was deleted from this standard, whereas its basic idea was moved to § 52A. Thus, the tax consequences of income in the form of dividends are recognized when recognizing the obligation to pay dividends. It should be noted that this statement applies to all tax consequences of dividends, and not only to situations, when there are different tax rates for the distributed and retained income.

Changes are made to IAS 23 "Borrowing Costs" in terms of borrowing costs subject to capitalization, and relate directly to § 14. The changes specify: if any specific loans remain outstanding after the asset is prepared for its expected use or sale, this borrowing becomes a part of the funds borrowed by the entity in general, when calculating the capitalization rate for total loans.

As for the other important updates in the IFRS, certain amendments to IFRS 9, IAS 28, IAS 19 come into effect from January 1, 2019.

Amendments to IFRS 9 "Prepayment Conditions with Potential Negative Reimbursement"

According to IFRS 9, a debt instrument may be assessed at the depreciated cost or at the fair value through other comprehensive income, provided that the contractual cash flows are "exclusively payments for the principal and interest on the outstanding part of the principal" (SPPI test) and the instrument is withheld within the framework of the appropriate business model that allows for such classification.

Amendments to IFRS 9 clarify that the financial asset passes the SPPI test, regardless of which event or circumstance leads to an early termination of the agreement, and regardless of which party pays or receives a reasonable reimbursement for early termination of the agreement.

These amendments are applied in retrospect and come into force for annual periods beginning on January 1, 2019. It may be applied before this date. These amendments do not affect the Bank's financial statements.

Amendments to IFRS 10 and IAS 28, "Sale or Contribution of Assets in Transactions between the Investor and its Associate or Joint Venture"

The amendments deal with the contradictions between IFRS 10 and IAS 28, in terms of the loss accounting of control over a subsidiary that is sold to an associate or a joint venture, or is brought in them. The amendments clarify that the profit or loss arising from the sale or contribution of assets representing a business, as defined in IFRS 3, in an agreement between the investor and its associate or joint venture, is recognized in full. However, the profit or loss arising from the sale or contribution of assets not representing a business are recognized only within the share of participation held by investors other than the organization in an associate or a joint venture. The IFRS Council has postponed the date of entry into force of the amendments for an indefinite period, but the organization applying these amendments prior to the scheduled date should use them prospectively. The bank will apply these amendments when they enter into force.

Note 5. New and revised standards not entered into force (continued)

Amendments to IAS 19 "Amendments to the Program, Program Reduction or Repayment of Program Obligations"

Amendments to IAS 19 consider the accounting procedure in cases where amendments to the program, program reduction or repayment of program obligations is carried out during the reporting period. The amendments clarify that if amendments to the program, program reduction or repayment of program obligations is carried out during the reporting period, the organization should:

determine the cost of services of the current period for the rest of the period after amendments to the program, program reduction or repayment of program obligations, based on actuarial assumptions used to reassess the net obligation (asset) of the program with a defined benefit reflecting the rewards proposed under the program, and the program assets after this event;

determine the net amount of interest for the rest of the period after amendments to the program, program reduction or repayment of program obligations, using: the net obligation (asset) of the program with a defined benefit, reflecting the rewards proposed under the program, and the program assets after this event; and the discount rate used to reassess the net obligation (asset) of the program with a defined benefit.

The amendments also clarify that the organization should first determine the cost of services of past periods or the profit or loss on repayment of obligations under this program, without taking into account the effect of the marginal value of the asset. This amount is recognized in profit or loss. After this, the organization should determine the effect of the marginal value of the asset after amendments to the program, its reduction or full repayment of program obligations. Any change in this effect, except for amounts included in the net amount of interest, is recognized in other comprehensive income.

These amendments apply to changes in the program, its reduction or full repayment of program obligations that occurred on or after the beginning of the first annual reporting period, commencing on or after January 1, 2019. It may be applied before this date. These amendments will apply only in relation to future changes to the program of the Bank, its reduction or repayment of program obligations.

Amendments to IAS 28 "Long-Term Investments in Associates and Joint Ventures"

The amendments clarify that the organization applies IFRS 9 to long-term investments in associates or joint ventures that are not subject to the equity method, but which, in fact, form a part of net investments in an associate or a joint venture (long-term investments). This clarification is important since it means that the model of expected credit losses in IFRS 9 applies to such long-term investments.

The amendments also clarify that, when applying IFRS 9, the organization does not take into account losses incurred by an associate or a joint venture, any impairment loss on the net investments recognized as adjustments to the net investment in an associate or a joint venture arising as a result of applying IAS 28 "Investments in Associates and Joint Ventures".

These amendments are applied in retrospect and come into force for annual periods beginning on or after January 1, 2019. It may be applied before this date. Since the Bank does not have such long-term investments in an associate or a joint venture, the amendments will have no impact on its financial statements.

Note 5. New and revised standards not entered into force (continued)

IFRS 17 "Insurance Agreements"

In May 2017, the IFRS Council issued IFRS 17 "Insurance Agreements", a new comprehensive financial reporting standard for insurance agreements that provides for the recognition, assessment, presentation and disclosure of information. When IFRS 17 enters into force, it will replace IFRS 4 "Insurance Agreements", which was issued in 2005. IFRS 17 applies to all types of insurance agreements (that is life insurance and insurance other than life insurance, direct insurance and reinsurance), regardless of the type of organization issuing them, as well as to certain precautionary measures and

financial tools with discretionary participation conditions. There are some exceptions to the field of application. The main objective of IFRS 17 is to provide an accounting model of the insurance agreements that is more efficient and consistent for insurers. Compared to the requirements of IFRS 4, which are mainly based on previous local accounting policies, IFRS 17 provides a comprehensive accounting model of the insurance agreements covering all relevant accounting aspects. The basis for IFRS 17 is a general model, supplemented by the following:

certain amendments to insurance agreements with the direct participation conditions (variable remuneration method);

simplified approach (approach based on the distribution of bonuses), mainly for the short-term agreements.

IFRS 17 comes into effect for accounting periods beginning on or after January 1, 2021, provided that it will be necessary to disclose a comparative information. It may be applied before this date provided that the organization also applies IFRS 9 and IFRS 15 at the date of first application. This standard is not applied to the Bank.

Clarification of IFRIC 23 "Uncertainty Regarding the Rules for Income Tax Computation"

The clarification specifies the procedure for the income tax computation, when there is uncertainty regarding the tax treatments that affects the application of IFRS 12. The clarification does not apply to the taxes or fees not included in the field of application of IAS 12, as well as does not contain specific requirements relating to the interest and fines associated with the uncertain tax treatments. In particular, the clarification addresses the following issues:

- whether an organization considers the uncertain tax treatments separately;
- the assumptions made by an organization regarding verification of the tax treatments by the tax authorities;
- how an organization determines taxable profit (tax loss), tax base, unused tax losses, unused tax benefits and tax rates;
- how an organization considers changes in facts and circumstances.

The organization should decide whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. It is necessary to use an approach that will allow predicting the outcome of uncertainty more accurately. The clarification comes into force for annual periods beginning on or after January 1, 2019.

The Bank will apply the clarification from the date of its entry into force. Since the Bank operates in a complex tax environment, application of the clarification may affect the Bank's financial statements.

Note 5. New and revised standards not entered into force (continued)

IFRS 16 "Lease"

IFRS 16, issued in January 2016, will come into effect on January 1, 2019, and replaces IAS 17 "Lease", Interpretation of IFRIC 4 "Determining Whether the Agreement Includes a Lease," Interpretation of SIC 15 "Operational Lease – Promotion" and Interpretation of SIC 27 "Estimation of the Substance of a Transaction that Have a Legal Form of the Lease Agreement". IFRS 16 establishes principles for recognizing, assessing, presenting and disclosing lease information, and requires the lessees to reflect all lease agreements using a single accounting model in the balance sheet, similar to the accounting procedure provided for in IAS 17 for the finance lease. The standard provides for two relieves of recognition for lessees – regarding the lease of low value assets (for example, personal computers) and short-term leases (that is leases with a term of no more than 12 months). At the commencement date of the lease, the lessee will recognize the obligations for lease payments (that is lease obligations), as well as the asset representing the right to use the underlying asset during the lease term (that is the asset in the form of the right to use). The Lessees will have to recognize the cost of interest on the lease obligations separately from the depreciation expenses of an asset in the form of the right to use.

The Lessees will also have to reassess the lease obligations upon occurrence of a specific event (for example, a change in the terms of lease, changes in the future lease payments due to the change in index or rates used to determine such payments). In most cases, the lessee will take into account the amounts of reassessment of the lease obligations as an adjustment of the asset in the form of the right to use.

The accounting procedure for the lessor according to IFRS 16 is almost unchanged compared to the requirements of IAS 17 that are currently in force. The lessors will continue to classify the lease using the same classification principles as in IAS 17, while allocating two types of leases: operating and financial.

Moreover, IFRS 16 requires lessors and lessees to disclose more information compared with IAS 17.

IFRS 16 comes into effect for annual periods beginning on or after January 1, 2019. It may be applied before this date, but not earlier than the date of application of IFRS 15 by the organization. The lessee may apply this standard using a retrospective approach or a modified retrospective approach. The transitional provisions of the standard provide for certain relieves. Currently, the Bank plans to assess the possible impact of IFRS 16 on its financial statements.

According to the Law of Ukraine "On Accounting and Financial Reporting", enterprises of the public interest should draw up and submit financial statements to public authorities according to international standards in a single electronic format (XBRL format) from 2019.

Main benefits of XBRL:

- automatic data input and output without re-transformation;
- speed and automatic reporting, including consolidated one;
- fast, efficient and reliable analysis and comparison of data;
- data tracking, cutting the decision time;
- promoting efficiency and economic efficiency for the regulatory (supervisory) process.

(in UAH thousand)

6. Cash and cash equivalents

	2018	2017
Cash with the National Bank of Ukraine	15 524	25 203
Total cash and cash equivalents	**15 524**	**25 203**

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

	2018	2017
Cash with the National Bank of Ukraine	15 524	25 203
Due to other banks	55 026	125 452
Total cash and cash equivalents	**70 550**	**150 655**

7. Loans to and other amounts due from banks

Table 7.1. Loans to and other amounts due from banks

	2018	2017
Correspondent accounts at other banks	55 026	125 497
Purchase and reverse sale contracts	-	-
Due to other banks	-	179 245
Provisions for impairment of due from other banks	(12 975)	(75 640)
Total due from other banks less provisions	**42 051**	**229 102**

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

The Bank has change the name of the line "Due from other banks" to "Loans to and other amounts due from banks " in the statement of financial position. The amounts due have not been changed.

Table 7.2. Loan quality analysis related to due from other banks as at 31 December 2018

	Correspondent accounts	Total
Undue and non-impaired:	55 026	55 026
with 20 largest banks of Ukraine	55 026	55 026
with other banks of Ukraine		
with large banks of OECD countries	-	-
Provisions for impairment of due from other banks	(12 975)	(12 975)
Total due from other banks less provisions	**42 051**	**42 051**

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

	Correspondent accounts	Loans	Total
Undue and non-impaired:	125 497	179 245	304 742
with 20 largest banks of Ukraine	97 702	153 208	250 910
with other banks of Ukraine	27 795	26 037	53 832
with large banks of OECD countries	-	-	-
Provisions for impairment of due from other banks	(44 738)	(30 902)	(75 640)
Total due from other banks less provisions	**80 759**	**148 343**	**229 102**

(in UAH thousand)

Table 7.4. Analysis of changes in provisions for impairment of due from other banks

	2018	2017
Provisions for impairment as at the beginning of the period	(75 640)	(135 610)
Increase/decrease in provision for impairment during the year	62 665	59 970
Provisions for impairment as at the end of the period	**(12 975)**	**(75 640)**

The amount of the reduction of the provision of UAH 62 665 thousand is an integral part of the amount UAH 42 709 thousand in the "Statement of profit or loss and other comprehensive income" ("Net (increase)/decrease in provisions for impairment of other financial assets ").

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers

	2018	2017
Loans to legal entities	199 439	138 603
Loans to individuals	822	666
Provision for loan impairment	(42 900)	(14 103)
Total loans to customers less provisions	**157 361**	**125 166**

During 2018 the loan portfolio demonstrated positive dynamics, but at the moment it forms about one fifth of assets. Customer lending has a batch nature. Concentration of the loan portfolio by major borrowers remains relevant. At the same time, the loans granted to legal entities are diversified by types of economic activity. The currency structure of the loans and advances to customers changed during the analyzed period.

At the beginning of this year, 40% of the loans and advances to customers were denominated in foreign currencies. Loans and advances to customers denominated in foreign currencies are secured by deposits in the same currency. The Bank does not have non-performing loans. The loan provisioning ratio exceeds 21%.

The structure of loans to legal entities comprises a loan to the Bank's related person in the amount of UAH 96 363 thousand.

***Table 8.2.* Analysis of changes in loan loss provisions for the reporting period**

	Loans to legal entities	Loans to individuals	Total
Opening balance:	(14 010)	(93)	(14 103)
Increase in provision during the year	(28 890)	93	(28 797)
Closing balance	**(42 900)**	**0**	**(42 900)**

The amount of the increase of the provision of UAH 28 797 thousand is an integral part of the amount UAH 42 709 thousand in the "Statement of profit or loss and other comprehensive income" ("Net (increase)/decrease in provisions for impairment of financial assets ").

(in UAH thousand)

***Table 8.3.* Analysis of changes in loan loss provisions for 2017**

	Loans to legal entities	Loans to individuals	Total
Opening balance:	(8 446)	0	(8 446)
Increase in provision during the year	(5 564)	(93)	(5 657)
Closing balance	**(14 010)**	**(93)**	**(14 103)**

Table 8.4 Loan structure by types of economic activities

	2018		2017	
	amount	%	amount	%
Health care	14 276	7	13 671	10
Rent of other machines, equipment and goods	58 986	29	27 633	20
Other support activities in the field of transport	21 189	11	21 450	15
Gas trading through local pipelines	49	-	9 873	7
Wholesale of beverages	51 913	26	65 976	48
Construction	51 954	26	-	-
Food production	1 072	1	-	-
Total loans and advances to customers except for provisions	**199 439**	**100**	**138 603**	**100**

Table 8.5. Information on loans within the type of collateral for the reporting period

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	53 034	0	53 034
Loans secured by:	146 405	822	147 227
real estate	63 635	822	64 457
including residential housing	2 459	822	3 281
- property rights for funds in the Bank	80 174	-	80 174
other assets	2 596	-	2 596
Total loans and advances to customers except for provisions	**199 439**	**822**	**200 261**

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

(in UAH thousand)

Table 8.6. Information on loans within the type of collateral as at 31 December 2017

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	75 849	-	75 849
Loans secured by:	62 754	666	63 420
real estate	7 305	666	7 971
including residential housing	6 755	666	7 421
- property rights for funds in the Bank	49 083	-	49 084
other assets	6 366	-	6 366
Total loans and advances to customers except for provisions	**138 603**	**666**	**139 269**

Table 8.7. Analysis of loan quality for the reporting period

	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
- Loans to large and medium businesses	73 133	-	-	73 133
- Loans to small-sized businesses	60 075	14 277	51 954	126 306
Total loans to legal entities amount before deducting provisions	133 208	14 277	51 954	199 439
Provisions for loan impairment	(5 878)	(6 245)	(30 777)	(42 900)
Total loans to legal entities amount less provisions	127 330	8 032	21 177	156 539
Loans to individuals	822	-	-	822
Loans to individuals	**128 152**	**8 032**	**21 177**	**157 361**

Table 8.8. Analysis of loan quality as at 31 December 2017

	Loans to legal entities	Loans to individuals	Total
Undue and non-impaired:	138 603	666	139 269
Loans to large and medium businesses	97 299	-	97 299
Loans to small-sized businesses	41 304	-	41 304
Total loan amount before deducting provisions	138 603	666	139 269
Provisions for loan impairment	(14 010)	(93)	(14 103)
Loans to individuals	**124 593**	**573**	**125 166**

Table 8.9. Impact of collateral value on loan quality as at the reporting date

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

(in UAH thousand)

Table 8.10. Impact of collateral value on loan quality as at 31 December 2017

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	138 603	49 083	89 520
Loans to individuals	666	-	666
Total loans	**139 269**	**49 083**	**90 186**

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

Note 9. Investments in securities

***Table 9.1.* Investments in securities**

	2018	2017
Debt securities	699 929	951 381
Deposit certificates of the National Bank of Ukraine	190 250	135 139
Government bonds	509 679	816 242
Bank bonds	-	25 986
Other debt securities	-	2 807
Provision for impairment of available-for-sale securities in the Bank portfolio	-	(8 835)
Total available-for-sale securities less provisions	**699 929**	**971 339**

Deposit certificates of the National Bank of Ukraine are accounted for in the Bank's portfolio at amortized cost and comprise accrued interest in the amount of UAH 250 thousand as at 31 December 2018.

Government bonds are carried at fair value through other comprehensive income and comprise accrued interest accrued in the amount of UAH 16 948 thousand UAH as at 31 December 2018.

The Bank classified held-to-maturity securities in the Bank portfolio in the amount of UAH 137 946 thousand and securities available-for-sale in the Bank portfolio in the amount of UAH 833 393 thousand as "Investments in securities", and made a retrospective adjustment the statement of financial position as at 31 December 2017. The aforementioned changes led to the removal of the relevant lines and the appearance of "Investing in securities". The carrying amounts of securities have not been changed.

Table 9.2. Loan quality analysis related to investments in securities as at 31 December 2018

	Government bonds	Bank bonds	Total
Undue and non-impaired:	699 929	-	699 929
State institutions and enterprises	509 679	-	509 679
Banks	190 250		190 250
Provision for impairment of available-for-sale securities in the Bank portfolio	-	-	-
Total debt securities available-for-sale in the Bank portfolio less provisions	**699 929**	**-**	**699 929**

(in UAH thousand)

Table 9.3. Loan quality analysis related to investments in securities as at 31 December 2017

	Government bonds	USA State institutions	Bank bonds	Total
Undue and non-impaired:	951 381	2 807	25 986	980 174
State institutions and enterprises	816 242			816 242
Banks			25 986	25 986
Deposit certificates of the National Bank of Ukraine	135 139			135 139
Other debt securities		2 807		2 807
Provision for impairment of available-for-sale securities in the Bank portfolio	-		(8 835)	(8 835)
Total debt securities available-for-sale in the Bank portfolio less provisions	**951 381**	**2 807**	**17 151**	**971 339**

10. Derivative financial assets

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

	2018	2017
Assets under forward agreements	4 799	482
Assets under future agreements	-	10
Assets under contracts under terms of SWAP	66	231
Total financial assets that are recognized at fair value through profit or loss	**4 865**	**723**

In 2018, the number of transactions with derivative financial instruments increased significantly compared to 2017.

(in UAH thousand)

Note 11. Fixed and intangible assets

As at 31 December 2018, the Bank has no:

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

Initial value of fully depreciated fixed tangible assets is UAH 1 630 thousand.

	Machinery and equipment	Instruments, fixtures and fittings	Other fixed tangible assets	Intangible assets	Total
Carrying amount as at 1 January 2017	586	71	-	1 391	2 048
Historical cost	1 083	268	733	1 883	3 967
Depreciation	(497)	(197)	(733)	(492)	(1 919)
Additions	180		12	16	208
Capital investments into fixed assets completion and intangible assets improvement				160	160
Disposals				(41)	(41)
Accumulated depreciation written-off upon disposal				41	41
Amortization charges	(237)	(67)	(12)	(200)	(516)
Carrying amount as at 31 December 2017	**529**	**4**	**-**	**1 367**	**1 900**
Historical cost	1 263	268	745	2 018	4 294
Depreciation	(734)	(264)	(745)	(651)	(2 394)
Proceeds	253	52		182	487
Capital investments into fixed assets completion and intangible assets improvement	6	-	-	133	139
Disposals	-	(15)	-		(15)
Accumulated depreciation written-off upon disposal	-	15	-		15
Amortization charges	(311)	(9)		(265)	(585)
Carrying amount as at 31 December 2018	**477**	**47**		**1 417**	**1 941**
Historical cost	1 522	306	745	2 333	4 906
Depreciation	(1 045)	(259)	(745)	(916)	(2 965)

(in UAH thousand)

Note 12. Other assets

Table 12.1. Other assets

	2018	2017
Prepayments for services	18	-
Deferred expenses	3 043	810
-income for services accrued	1	277
Other	8	9
Provisions for other assets impairment	(19)	(1)
Total other financial assets less provisions	**3 051**	**1 095**

The Bank made a retrospective adjustment to the statement of financial position as at 31 December 2017 and classified other financial assets in the amount of UAH 276 thousand as "Other Assets", which led to the removal of the item "Other Financial Assets". The carrying amount of the assets has not been changed.

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

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

Table 12.3. Analysis of changes in provisions for other assets impairment for the previous period

	Other financial assets	Total
Undue and non-impaired debt	(16)	(16)
Provisions for loan impairment	15	15)
Total other financial assets less provisions	**(1)**	**(1)**

Note 13. Due to other banks

	2018	2017
Money coverage received from banks as collateral provided guarantee	-	2 194
Sale and repurchase agreements with other banks	**-**	169 362
Total due to other banks	**-**	**171 556**

(in UAH thousand)

Note 14. Due to customers

Table 14.1 Due to customers

	2018	2017
State organizations:	**51**	**1 148**
-Current accounts	51	38
-Term deposits	-	1 110
Other legal entities:	**496 403**	**793 124**
-Current accounts	459 034	758 836
-Term deposits	37 369	34 288
Private individuals:	**90 372**	**58 098**
-Current accounts	8 638	7 084
-Term deposits	81 734	51 014
Total due to customers	**586 826**	**852 370**

Table 14.2 Customer funds allocation by economic activities

	2018		2017	
	amount	**%**	**amount**	**%**
Financial and insurance activities	54 474	9,28	58 785	6,90
Services (financial)	150 693	25,68	309 354	36,29
Information and telecommunications	31	0,01	779	0,09
Trading	45 079	7,68	172 950	20,29
Agriculture	6	0,00	140	0,02
Fishery	57	0,01	157	0,02
Storage facilities and transportation supporting activities	156	0,03	68 478	8,03
Mining	3 538	0,60	57 699	6,77
Electricity supply	18 885	3,22	2 314	0,27
Consulting	3 075	0,52	-	0,00
Government organizations	1 154	0,20	1 148	0,13
Production	173 311	29,53	100 434	11,78
Health care	741	0,13	136	0,02
Property transactions	40 232	6,86	19 230	2,26
Private individuals, including non-residents	90 371	15,39	58 098	6,82
Investors-non-residents	5 023	0,86	2 668	0,31
Total customer funds	**586 826**	**100,00**	**852 370**	**100,00**

(in UAH thousand)

Note 15. Derivative financial liabilities

	2018	2017
Liabilities under forward agreements	997	1 863
Liabilities under contracts under terms of SWAP	1 421	44
Total financial liabilities that are recognized at fair value through profit or loss	**2 418**	**1 907**

Note 16. Provisions for liabilities

	Loan liabilities	Total
Opening balance	100	100
Creation and/ or increase of provisions	1	1
Closing balance	**101**	**101**

Provisions for liabilities consist of reserves for possible impairment losses on provided financial guarantees with maturity in 2019.

Note 17. Other liabilities

	2018	2017
Accounts payable for settlements with employees	5 707	5 382
Accounts payable for taxes and charges apart from income tax	185	127
Accounts payable for foreign currency transactions	16 397	2 998
Accounts payable for customer transactions	7	737
Other financial liabilities	-	4
Expenses for telecommunication and operation services	128	45
Accounts payable for accrued expenses	55	60
Total	**22 479**	**9 353**

The Bank made a retrospective adjustment to the statement of financial position as at 31 December 2017 and classified other financial liabilities in the amount of UAH 3 799 thousand as "Other liabilities", which led to the removal of the item "Other Financial Assets". The carrying amount of the liabilities has not been changed.

Note 18. Share capital

(in pcs)

	Number of shares in circulation (pcs.)	Ordinary shares	Preferred shares	Total
Balance as at 1 January 2018	**122 000**	**122 000**		**122 000**
Contributions on newly issued shares (unit shares, stocks)	-	-	–	-
Balance as at 31 December 2018	**122 000**	**122 000**		**122 000**

As at 31 December 2018, the share capital amounts to UAH 300 120 thousand. The share capital is divided into 122 000 ordinary registered shares paid in full. During the year the Bank registered an increase in ordinary registered share denomination by means of profits of previous years; an ordinary registered share denomination at the end of 2018 amounted to UAH 2 460.

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

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

Note 19. Revaluation reserves (other comprehensive income components)

	2018	2017
Revaluation of debt securities in the Bank portfolio:	**(2 039)**	(2 688)
Revaluation changes to fair value	(2 039)	(2 688)
Income tax related to:	**367**	**484**
Change in reserve for revaluation	367	484
Total revaluation reserves (other comprehensive income)	**(1 672)**	**(2 204)**

(in UAH thousand)

Note 20. Analysis of assets and liabilities by maturities

	(Note)	2018 Less than 12 months	2018 More than 12 months	2018 Total	2017 Less than 12 months	2017 More than 12 months	2017 Total
Assets							
Cash and cash equivalents	6	15 524	-	15 524	25 203	-	25 203
Due from other banks	7	42 051	-	42 051	229 102	-	229 102
Loans and advances to customers	8	127 330	30 031	157 361	117 348	7 818	125 166
Investments in securities	9	699 929	-	699 929	971 339	-	971 339
Derivative financial assets	10	4 865	-	4 865	723	-	723
Deferred tax assets	24	4 657	578	5 235	-	578	578
Income tax receivables		4 080	-	4 080			
Fixed assets	11	-	1 941	1 941	-	1 900	1 900
Other assets	12	3 051	-	3 051	1 095	-	1 095
Total assets		**901 487**	**32 550**	**934 037**	**1 344 810**	**10 296**	**1 355 106**
Liabilities							
Due to other banks	13	-	-	-	171 556	-	171 556
Due to customers	14	586 826	-	586 826	852 370	-	852 370
Derivative financial liabilities	15	2 418		2 418	1 907		1 907
Provision for liabilities	16	-	-	-	8 680	-	8 680
Other liabilities	17	101	-	101	100	-	100
Total liabilities		22 479	-	22 479	9 353	-	9 353
		611 824	**-**	**611 824**	**1 043 966**	**-**	**1 043 966**

Note 21. Interest income and expenses

	2018	2017
Interest income:		
Debt securities	131 121	103 083
Due from other banks	16 437	9 389
Correspondent accounts in other banks	6 227	1 303
Loans and advances to customers	18 967	13 227
Total interest income	**172 752**	**127 002**
Interest expenses:		
Term deposits to other banks	(1 408)	(8 075)
Legal entities term deposits	(20 255)	(3 753)
Current accounts	(25 859)	(48 584)
Private individuals term deposits	(2 170)	(340)
Total interest expenses	**(49 692)**	**(60 752)**
Net interest income/(expenses)	**123 060**	**66 250**

Comparing to the results of 2017 there was in net interest income.

(in UAH thousand)

Note 22. Fee and commission income and expenses

	2018	2017
Fee and commission income		
Settlement and cash transactions	3 358	3 715
Currency market trading	8 291	6 485
Guarantee transactions	197	1 284
Other	1570	18
Total fee and commission income	**13 416**	**11 502**
Fee and commission expenses		
Settlement and cash transactions	(1 533)	(795)
Securities trading	(29)	(30)
Other	(148)	(8)
Total fee and commission expenses	**(1 710)**	**(833)**
Net fee and commission income/expense	**11 706**	**10 669**

Comparing to the results of 2017 there was in net fee and commission income.

Note 23. Administrative and other operating expenses

	2018	2017
Staff costs	(24 655)	(20 978)
Depreciation and amortization	(585)	(516)
Emoluments to key management personnel	(101 294)	-
Fixed and intangible assets maintenance	(1 271)	(918)
Operating leasing (rent)	(904)	(774)
Audit expenses	(505)	(279)
Communication expenses	(2 463)	(1 804)
Other taxes and mandatory fees, except for income tax	(785)	(268)
Charity costs	-	(200)
Costs on data storage services	(629)	(475)
Operating and household services	(603)	(556)
Costs of voluntary medical insurance of employees	(166)	(190)
Other	(1 872)	(1 221)
Total administrative and other operating expenses	**(135 732)**	**(28 179)**

Average number of the Bank's employees in 2018 amounted to 24 persons.
The structure of staff costs includes:

- salaries and wages amounting to UAH 20 264 thousand;
- formation of allowance for unused vacations - UAH 1 533 thousand;
- social security tax - UAH 2 695 thousand;
- contributions to non-state pension provision - UAH 148 thousand.
- costs for employees training - UAH 15 thousand.
- costs of voluntary medical insurance of employees UAH 166 thousand;
- remuneration to key management personnel under contracts - UAH 101 294 thousand.

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

(in UAH thousand)

Note 24. Income tax expenses

Table 24.1 Income tax expenses

	2018	2017
Current income tax	(7 096)	(22 000)
Change of deferred income tax	4 791	(12)
Income tax, paid from foreign income at the source of payment	(4)	(4)
Total income tax expenses	**(2 309)**	**(22 016)**

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

	2018	2017
Income before tax	12 774	122 307
Theoretical tax liabilities at the relevant tax rate	(2 299)	(22 015)
Expenses not included in the amount of taxable income, but recognized in accounting records aiming at calculation of:	*(4 800)*	8
Depreciation and amortization	4	(7)
Costs that are included in financial income, but not recognized in tax accounting	(2)	
Loss on disposal of securities	(4 798)	-
expenses for reserve formation	(4)	15
Costs that are not included in financial income, but are recognized in tax accounting	-	3
Expenses of past periods, which are recognized in the tax accounting of the current period	3	4
Change in deferred income tax	*4 791*	(12)
Income tax, paid from foreign income at the source of payment	*(4)*	(4)
Amount of income tax expenses	**(2 309)**	**(22 016)**

Table 24.2.1 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2018

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

Table 24.2.2 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2017

	Balance as at 31 December 2016	Recognized in statement of comprehensive income	Recognized in equity	Balance as at 31 December 2017
Deferred tax asset due to:				
Excess of acquisition cost in tax accounting over cost of securities in the Bank portfolio	17	-	484	501
Depreciation allowance	77	(5)	-	72
Formation of allowance for unused vacations	11	(7)	-	4
Net deferred tax asset/(liability)	**105**	**(12)**	**484**	**578**

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

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

	2018	2017
Profit /(loss) attributable to Bank ordinary Shareholders (UAH thousand)	10 465	100 291
Annual profit/(loss) (UAH thousand)	10 465	100 291
Average annual number of ordinary shares outstanding (thousand, pcs)	122	122
Net profit/ (loss) per an ordinary share (UAH)	**85,78**	**822,06**
Adjusted net income/ (loss) per an ordinary share, UAH	**85,78**	**822,06**

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

	2018	2017
Profit /(loss) for the year attributable to Bank Shareholders	10 465	100 291
Retained earnings/(losses) for the year	10 465	100 291
Retained earnings/(losses) for the year attributable to Bank ordinary Shareholders depending on terms of shares	10 465	100 291
Profit/ (loss) attributable to Bank ordinary Shareholders	10 465	100 291

(in UAH thousand)

Note 26. Operating segments

Table 26.1. Income, expenses and operating segment results for 2018

	Operating segments		Total
	Treasury operations	**Other**	
Interest income	172 752	-	172 752
Fee and commission income	8 488	4 928	13 416
Gain on disposal from trading securities held at fair value through profit and loss	(1 002)	–	(1 002)
Gain on disposal from trading securities held at fair value through other comprehensive income	(8 492)		(8 492)
Gains on foreign currency transactions	10 087	–	10 087
Gains on foreign currency revaluation	(16 404)		(16 404)
Чистий прибуток/(збиток) від припинення визнання фінансових активів, які обліковуються за амортизованою собівартістю	1 637		1 637
Other operational income	18		18
Total income	**167 084**	**4 928**	**172 012**
Interest expenses	(49 692)	-	(49 692)
Commission expenses	(28)	(1 681)	(1 709)
Allocation to provision for impairment of financial assets	42 709	-	42 709
Gains/(losses) that arise from initial recognition of financial assets at an interest rate that is higher or lower than the market rate	(14 813)		(14 813)
Allocations to provision for liabilities	(1)	-	(1)
Staff costs	(24 821)		(24 821)
Depreciation and amortisation	-	(585)	(585)
Administrative expenses	(8 964)	(101 362)	(110 326)
Total expenses	**(55 610)**	**(103 628)**	**(159 238)**
Income tax expenses	(2 309)	-	(2 309)

Table 26.2 Assets and liabilities of operating segments for 2018

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

Table 26.3. Income, expenses and operating segment results for 2017

	Operating segments		Total
	Treasury operations	**Other**	
Interest income	127 002	-	127 002
Fee and commission income	7 769	3 733	11 502
Gains on securities trading in the Bank trading portfolio	859	-	859
Gains on other financial instruments revaluation	(3 898)	–	(3 898)
Gains on foreign currency transactions	30 659	–	30 659
Other operational income	400		400
Total income	**162 791**	**3 733**	**166 524**
Interest expenses	(60 752)	-	(60 752)
Allocation to provision for loan impairment and due from other banks	54 312	-	54 312
Allocation to provision for available-for-sale securities in the bank portfolio	(8 835)	-	(8 835)
Allocation to provision for impairment of receivables and other financial assets	15	-	15
Allocations to provision for liabilities	70	-	70
Fee and commission expenses	(30)	(803)	(833)
Administrative expenses	(28 194)	-	(28 194)
Total expenses	**(43 414)**	**(803)**	**(44 217)**
Income tax expenses	(22 016)	-	(22 016)

Table 26.4 Assets and liabilities of operating segments for 2017

	Operating segments		Total
	Treasury operations	Other	
Segment assets	1 203 340	151 766	1 355 106
Total assets	**1 203 340**	**151 766**	**1 355 106**
Segment liabilities	1 029 732	14 234	1 043 966
Total liabilities	**1 029 732**	**14 234**	**1 043 966**

Note 27. Financial risk management

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

Credit risk

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

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

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

The ratio of the sum of all claims of the Bank to the counterparty or group of related counterparties and all financial obligations given by the Bank to the counterparty or a group of related counterparties to the regulatory capital of the Bank (hereinafter - H7) shall not exceed 25 percent. As of December 31, 2018, the value of the H7 norm was 14.20%.

Market risk

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

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

Foreign currency risk

Table 27.1 Foreign currency risk analysis

Currency	As at 31 December 2018			As at 31 December 2017		
	Monetary assets	Monetary liabilities	Net foreign exchange position	Monetary assets	Monetary liabilities	Net foreign exchange position
USD	692 065	702 517	(10 452)	255 749	175 943	79 806
EUR	6 726	12 835	(6 109)	8 702	8 340	362
RUR	107	0	107	1 224	1 851	(627)
Total	**698 898**	**715 352**	**(16 454)**	**265 675**	**186 34**	**79 541**

Note 27. Financial risk management (continued)

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

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

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

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

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

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

	2018		2017	
	Impact on profit/ (loss)	**Impact on equity**	**Impact on profit/ (loss)**	**Impact on equity**
USD strengthening by 25%	(2 613)	(2 613)	(493)	(493)
USD weakening by 25%	2 613	2 613	493	493
EUR strengthening by 25%	(1 527)	(1 527)	(4 480)	(4 480)
EUR weakening by 25%	1 527	1 527	4 480	4 480
RUR strengthening by 25%	27	27	(167)	(167)
RUR weakening by 25%	(27)	(27)	167	167

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

Note 27. Financial risk management (continued)

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

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

Interest rate risk

Table 27.3 General analysis of interest rate risk in 2018

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

Table 27.4 General analysis of interest rate risk in 2017

Item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Interest-free	Total
2017						
Total financial assets	1 198 214	2 808	66 234	7 818	76 735	1 351 809
Total financial liabilities	943 848	22 056	50 938	-	12 890	1 029 732
Net GAP on interest-bearing assets and liabilities as at 31 December	254 366	(19 248)	15 296	7 818	63 845	322 077

Note 27. Financial risk management (continued)

Table 27.5 Monitoring of interest rates on financial instruments

(%)

	2018				2017			
	UAH	**USD**	**EUR**	**other**	**UAH**	**USD**	**EUR**	**other**
Assets								
Cash and cash equivalents	0,00	0,00	0,00	0,00	0.0	0.00	0.0	0.0
Due from other banks	18,40	0,00	0,00	0,00	12.3	3.55	0.0	0.1
Loans and advances to customers	15,50	3,50	0,00	0,00	18.6	4.25	0.0	0.0
Trading debt securities	18,20	6,70	0,00	0,00	10.5	1.00	0.0	0.0
Other assets	0,00	0,00	0,00	0,00	0.0	0.00	0.0	0.0
Liabilities								
Due to other banks	17,40	2,20	0,00	0,00	15.0	0.0	0.0	0.0
Due to customers	9,72	1,44	0,01	0,00	4.94	0.88	0.01	0.0
Current accounts	8,80	1,30	0,01	0,00	0.01	0.2	0.01	0.0
Term deposits	14,70	1,90	0,00	0,00	11.0	3.0	0.0	0.0
Other liabilities	0,00	0,00	0,00	0,00	0.0	0.0	0.0	0.0

Geographic risk

Table 27.6 Financial assets and liabilities geographic concentration analysis for 2018

	Ukraine	**OECD**	**Other countries**	**Total**
Assets				
Cash and cash equivalents	15 524	-	–	15 524
Due from other banks	42 051	-	–	42 051
Loans and advances to customers	157 361	-	-	157 361
Debt securities in the Bank portfolio	699 929	–	–	699 929
Derivative financial assets	4 865	-	-	4 865
Other financial assets	1	–	–	1
Total financial assets	**919 731**	**-**	**–**	**919 731**
Liabilities				
Due to other banks	-	–	–	0
Due to customers	580 151	1 652	5 023	586 826
Derivative financial liabilities	2 418	-	-	2 418
Other financial liabilities	16 498	–	–	16 498
Total financial liabilities	**599 067**	**1 652**	**5 023**	**605 742**

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

Note 27. Financial risk management (continued)

Table 27.7 Financial assets and liabilities geographic concentration analysis for 2017

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	25 203	-	–	25 203
Due from other banks	229 102	-	–	229 102
Loans and advances to customers	125 166	-	-	125 166
Available-for-sale securities in the Bank portfolio	833 393	–	–	833 393
Held-to-maturity securities in the Bank portfolio	135 138	2 808	-	137 946
Other financial assets	999	–	–	999
Total financial assets	**1 349 001**	**2 808**	**–**	**1 351 809**
Liabilities				
Due to other banks	171 556	–	–	171 556
Due to customers	848 064	1 638	2 668	852 370
Other financial liabilities	5 806	–	–	5 806
Total financial liabilities	**1 025 426**	**1 638**	**2 668**	**1 029 732**

Liquidity risk

Table 27.8 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2018

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

Note 27. Financial risk management (continued)

Table 27.9 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2017

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	25 203	-	-	-	-	25 203
Due from other banks	229 102	-	-	-	-	229 102
Loans and advances to customers	68 265	-	49 083	7 818	-	125 166
Available-for-sale securities in the Bank portfolio	816 242	-	17 151	-	-	833 393
Held-to-maturity securities in the Bank portfolio	135 138	-	2 808	-	-	137 946
Other financial assets	999	-	-	-	-	999
Total financial assets	**1 274 949**	**0**	**69 042**	**7 818**	**-**	**1 351 809**
Liabilities						
Due to other banks	171 556	-	-	-	-	171 556
Due to customers	779 376	22 056	50 938	-	-	852 370
Other financial liabilities	5 806	-	-	-	-	5 806
Total financial liabilities	**956 738**	**22 056**	**50 938**	**-**	**-**	**1 029 732**
Net liquidity GAP as at 31 December	318 211	(22 056)	18 104	7 818	-	322 077
Total liquidity GAP as at 31 December	318 211	296 155	314 259	322 077	322 077	

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

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

Other risks

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

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

(in UAH thousand)

Note 28. Capital management

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

Regulatory capital structure

	As at 31 December 2018	As at 31 December 2017
Core capital		
Actually paid authorized capital stock	300 120	208 498
Reserves and other funds	9 577	4 562
Reduction of core capital		
Intangible assets less amortization	(1 417)	(1 367)
Capital contributions to intangible assets	-	-
Core capital (tier 1 capital)	308 280	211 693
Additional capital		
Provisions for standard liabilities	-	-
Estimated current year profit	10 465	100 290
Uncollected accrued income less provisions	1	(126)
Retained earnings from prior years	3 723	72
Additional capital (tier 2 capital)	14 187	100 236
Total regulatory capital	**322 467**	**311 929**

The data in the Table above consider the adjusting entries as at 01/01/2019. A regulatory capital adequacy ratio (solvency ratio) reflects the Bank's ability to timely and fully cover its liabilities arising from trade, credit and other monetary operations. The higher the value of the regulatory capital adequacy ratio, the greater the risk portion assumed by the Bank's owners. Alternatively, the lower the ratio value, the greater the risk portion assumed by the Bank's creditors/depositors. A regulatory capital adequacy ratio is set to prevent the excessive shifting of the credit risk and the banking assets default risk from the Bank to the Bank's creditors/depositors.

Each year, the ALCO oversees the preparation of a capitalization plan, which is a part of the Bank's budget and which is aimed at ensuring that the Bank will comply with the minimum capital requirements. It details a projected growth of capital and assets, dividend distributions, future business expansion, losses on bad loans and projected revenues. The plan also aims to support capital adequacy according to regulatory requirements of the National Bank of Ukraine. Due to the Bank's effective policy regarding capital management, the Bank adhered to the regulatory capital adequacy ratio during 2018.

(in UAH thousand)

Note 29. Contingent commitments

Table 29.1. Structure of lending commitments

	As at 31.12.2018	As at 31.12.2017
Lending commitments issued	100 534	7 541
Guarantees issued	4 305	5 315
Provisions for lending commitments	(101)	(100)
Total lending commitments less provisions	**104 738**	**12 756**

Table 29.2. Structure of lending commitments by currencies

	As at 31.12.2018	As at 31.12.2017
UAH	101 668	9 506
EUR	3 070	3 250
Total	**104 738**	**12 756**

As at 31 December 2018, the Bank had no signed agreements of non-cancellable leases and cases pending in courts.

Note 30. Fair value of financial instruments

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

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

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

As at 31 December 2017, available-for-sale securities in the Bank portfolio are accounted for at fair value. Furthermore, the Bank considers that as at 31 December 2017 the value of such high-liquid assets/liabilities as cash and cash equivalents; short-term funds attracted/placed may be equated to the fair value. Information on financial assets in the balance sheet as at 12/31/2018 stated at fair value is presented below:

	Date	Fair value by various valuation methods			Total carrying amount
		Market quotations (level I)	Valuation method using observable data (level II)	Valuation method using indicators not supported by observable market data (level III)	
Securities in the Bank portfolio held at fair value through profit or loss	31.12.18	509 679	-	-	509 679
Financial assets that are recognized at fair value through profit or loss	31.12.8	4 865	-	-	4 865
Cash and cash equivalents	31.12.18	15 524	-	-	15 524
Total assets	**-**	**-**	**-**	**-**	**934 037**
Financail liabilities, that are recognized at fair value through profit or loss	31.12.18	2 418	-	-	2 418
Total liabilities	**-**	**-**	**-**	**-**	**611 824**

Note 30. Fair value of financial instruments (continued)

Information on financial assets in the balance sheet as at 31 December 2017 stated at fair value is presented below:

		Fair value by various valuation methods			Total carrying amount
		Market quotations (level I)	Valuation method using observable data (level II)	Valuation method using indicators not supported by observable market data (level III)	
Securities in the Bank portfolio available for sale	31.12.17	833 393	-	-	833 393
Financial assets that are recognized at fair value through profit or loss	31.12.17	723	-	-	723
Cash and cash equivalents	31.12.17	25 203	-	-	25 203
Total assets	**-**	**-**	**-**	**-**	**1 355 106**
Financail liabilities, that are recognized at fair value through profit or loss	31.12.17	1 907	-	-	1 907
Total liabilities	**-**	**-**	**-**	**-**	**1 043 966**

Note 31. Presentation of financial instruments by valuation categories

Table 31.1. *Financial assets by valuation categories for* 2018

	Loans and receivables	Available for sale assets	Held to maturity investments	Total
Cash and cash equivalents	15 524	-	-	15 524
Due from other banks	42 051	-	-	42 051
-Corresponding accounts at other banks	42 051	-	-	42 051
-Loans to other banks	-	-	-	-
Loans and advances to customers	157 361	-	-	157 361
-Loans to legal entities	156 539	-	-	156 539
-Loans to individuals	822	-	-	822
Investments in securities	190 250	509 679	-	699 929
Other financial assets	1	-	-	4 866
-Positive revaluation on derivatives	-		4 865	4 865
-Income from services accrued	1	-	-	1
Total financial assets	**405 187**	**509 679**	**4 865**	**919 731**

Note 30. Fair value of financial instruments (continued)

Table 31.2. Financial assets by valuation categories for 2017

	Loans and receivables	Available for sale assets	Held to maturity investments	Total
Cash and cash equivalents	25 203	-	-	25 203
Due from other banks	304 742	-	-	304 742
-Corresponding accounts at other banks	125 497	-	-	125 497
-Sale and repurchase agreements with other banks	-	-	-	-
-Loans to other banks	179 245	-	-	179 245
Loans and advances to customers	139 269	-	-	139 269
-Loans to legal entities	138 603	-	-	138 603
-Loans to individuals	666	-	-	666
Securities in the Bank portfolio available for sale	-	842 228	-	842 228
Securities in the Bank portfolio held to maturity	-	-	137 946	137 946
Other financial assets	1000	-	-	1000
-Positive revaluation on derivatives	723			723
-Income from services accrued	277	-	-	277
Total financial assets	**635 687**	**842 228**	**137 946**	**1 615 861**

Note 32. Related party transactions

Table 32.1 Balances of related party transactions for 2018

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 3.5-22 %)	-	-		96 363
Provisions for loan debts as at 31 December	-	-	-	(6 431)
Other assets				
Due to customers (contract interest rate 0,1- 33%, depending on currency and product)	4 773	93 350	767	105 745
Other liabilities	–	-		998

During 2017, the Bank carried out related party transactions on standard terms.

Note 32. Related party transactions (continued)

Table 32.2. Income and expenses for related party transactions for 2018

	Parent company	Jointly controlled companies	Top management*	Other related parties
Interest income	-	-	-	3 909
Interest expenses	(1)	(10 099)	(107)	(2 892)
Fee and commission income	42	1 536	1	897
Other operating income	-	11	-	9
Administrative and other expenses	-	-	(111 174)	(2 282)
Total	**41**	**(8 552)**	**(111 821)**	**(359)**

Includes members of the Management board and Supervisory Board

Table 32.3. Loans granted to and repaid by related parties in 2018

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans granted to related parties during the period	-	-	-	58 842
Loans repaid by related parties during the period	-	-	-	27 699
Total	**-**	**-**	**-**	**31 143**

Table 32.4. Other commitments granted to and received from related parties in 2018

	Parent company	Jointly controlled companies	Top management	Other related parties
Guarantees granted	-	-	-	-
Guarantees received	-	-	9 000	2 450
Commitments to lend	-	-	-	597

Table 32.5 Balances of related party transactions for 2017

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 17 %)	-	-	666	13 671
Provisions for loan debts as at 31 December	-	-	(93)	(6 425)
Due to customers (contract interest rate 0,1- 23%, depending on currency and product)	1 994	59 118	206	3 881
Other liabilities	–	43	2 652	-

Note 32. Related party transactions (continued)

Table 32.6. Income and expenses for related party transactions for 2017

	Parent company	Jointly controlled companies	Top management	Other related parties
Interest income	-	-	38	2 424
Interest expenses	(2)	(8 858)	(25)	-
Fee and commission income	40	104	1	222
Administrative and other expenses	-	(98)	(10 338)	-
Total	**38**	**(8 852)**	**(10 407)**	**2 646**

Table 32.7. Loans granted to and repaid by related parties in 2017

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans granted to related parties during the period	-	-	738	51 424
Loans repaid by related parties during the period	-	-	72	49 760
Total	**-**	**-**	**666**	**1 664**

Table 32.8. Other commitments granted to and received from related parties in 2017

	Parent company	Jointly controlled companies	Top management	Other related parties
Guarantees granted	-	-	-	-
Guarantees received	-	-	9 000	740
Commitments to lend	-	-	-	597

Note 32. Subsequent events

There have been no other events after the reporting date that may be significant for users of the financial statements. In particular, there have been no:

- Business combinations;
- Termination of business or decision on termination of business;
- Significant acquisition of assets;
- Significant changes in exchange rates or the value of the Bank's assets;
- Court decisions in favor of plaintiffs, which might cause significant financial obligations for the Bank.

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

Chief Accountant _____ **/O. Trush /**