

FREE TRANSLATION FROM THE ORIGINAL IN UKRAINIAN

ANNUAL REPORT JSC «BANK AVANGARD» for 2022

including

**REPORT OF MANAGEMENT BODIES «MANAGEMENT
REPORT», which includes CORPORATE
MANAGEMENT REPORT**

ANNUAL FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

24 February 2023

Kyiv

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

for 2022**

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 2022.

2. NATURE OF BUSINESS.

The National Bank of Ukraine registered the Bank on July 5, 2013. The Bank conducts banking operations in the money and foreign exchange markets in accordance with the banking license (The Bank was registered in the State Register of Banks on July 5, 2013 under No. 346, Extract from the State Register of Banks dated August 16, 2021 No. DRB-000069). 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. Environment, in which Bank operates.

On February 24, 2022, a full-scale invasion of the territory of Ukraine by the troops of the Russian Federation began. In connection with the military aggression of the Russian Federation against Ukraine, based on the proposal of the National Security and Defence Council of Ukraine, the President of Ukraine in accordance with the Decree of the President of Ukraine of February 24, 2022 № 64/2022 imposed martial law in Ukraine for 30 days. the same day was approved by the Verkhovna Rada of Ukraine.

The National Bank promptly made decisions and imposed temporary restrictions on the operation of the foreign exchange market of Ukraine, fixing exchange rates, restrictions on cash withdrawals and a moratorium on cross-border payments, etc. in connection with the declaration of martial law throughout Ukraine. Appropriate actions are necessary to ensure the reliable and stable functioning of the country's financial system and maximize the activities of the Armed Forces of Ukraine, as well as the smooth operation of critical infrastructure.

At its extraordinary meeting on February 24, 2022, the National Securities and Stock Market Commission (NSSMC) decided to temporarily suspend operations with all securities, as well as to conduct operations in the depository accounting system and clearing accounting systems, and to temporarily suspend operations with assets of CII and NPF.

The currency and stock markets are now operating under significant restrictions that were introduced under martial law. Authorized institutions are actually prohibited from trading in currency values, except in a number of cases. Most transactions on the interbank market take place with the participation of the National Bank – both for the purchase and sale of foreign currency. Since the beginning of the war, on February 24, 2022 the hryvnia exchange rate has been fixed at the level of 29,2549 UAH/USD, and on July 21, 2022 the National Bank fixed the exchange rate of hryvnia to US Dollar at new level of 36,5686 UAH/USD, which is 25% higher than previous. What the exchange rate will be after the end of the war will depend on many parameters, so it is impossible to predict the exchange rate now. It is expected that after the situation normalizes, the full operation of the foreign

exchange market will be restored as soon as possible, and currency restrictions imposed during the war period will be lifted. As soon as the market monetary instruments start working, the NBU will be able to return to smoothing exchange rate fluctuations and stabilizing the market situation in case of imbalances. For this purpose, the NBU has a sufficient reserve of international reserves at the reporting date

The impact of the war on the banking sector is manifested through such components as:

- interruptions in the operation of bank branches and ATMs, significant damage or destruction of banking infrastructure in war zones;
- reduced liquidity due to the outflow of client funds, which is partially offset by NBU support through refinancing instruments;
- reduction of the loan portfolio due to the actual termination of new lending by banks (except for lending by state-owned banks to sectors and enterprises that are critically important under martial law);
- a sharp (at least 50%) decrease in banks' operating income (due to reduced demand for services from customers, introduced "credit holidays", restrictions on currency transactions, etc.), which may result in their operating unprofitability in the medium term;
- inability of some borrowers to service loans, deterioration of payment discipline due to the termination of many enterprises, loss of sources of income by individuals (in particular, refugees), forced change of place of residence of millions of Ukrainian citizens;
- decrease in the amount of capital of banks due to shortfall in income, material losses and loss of part of the loan portfolio.

Per data of experts from National Bank of Ukraine, Global inflation stayed significant under the influence of high prices on energy sources, which, regarding the low demand slowed down the World economy. As a result, main central banks continue to strengthen the monetary policy, however individual Emerging markets are ending this cycle.

In the second half-year the economy of Ukraine slowly started to regrow after significant damage done as a consequence of full-scale war, but damage done to energetical infrastructure put an end to this trend. This year GDP dropped approximately a third, and in 2023 will slow down more, than was expected before the mass shelling begun. This will slow down the demand for financial services and will lead to additional credit losses for banks.

International support of Ukraine only grows, becoming systematic and more regular. In 2022, with the help of partners there were additions to the state budget that amounted to more than half of budgets needs and this situation will stay the same for another year. External grants and credits also supported the balance of payments and international reserves, thanks to which National Bank of Ukraine continues to actively regulate the financial market. In the second half-year pressure on the exchange market due to summer adjustments of exchange rates and chain of currency restrictions. Significant governmental spending on payments to soldiers and victims of war, supporting public income and compensating its lack in the private sector.

The liquidity of banking system overall stayed high throughout the war, and some indicators beat the records. Apart from maintaining depositors' trust, it's influenced by regular and significant governmental payments to the bank accounts of the population. However, the flow of new funds in the sector is uneven. The funds mainly stay on the current accounts of

government banks. Throughout the second half-year the amount of term deposits has dropped so the funding has slowed down. This doesn't imply immediate risks to the banking system, but it weakens the stability of individual banks in regards to the moods of depositors. So financial institutions should work towards the betterment of term structure of funding and raising populations' funds, in particular through increasing the deposit rates. Raising the deposit rates in UAH is also driven by the high discount rates. Apart from that, the National Bank of Ukraine will heighten reserve requirements for current accounts to give banks more stimulus to extend the obligations. Weakening of currency restrictions in July gave the opportunity to buy foreign currencies to the population to place on term deposits. After that, term deposits in foreign currencies started to rise for the first time since COVID-19 crisis. All of populations funds are kept in high-quality liquid assets

The continuity of payments and work of chain of branches also had an impact on saving the trust for banks. Despite the war and mas shelling, the payments for the population and businesses are made without the delays. The number of payments is rising.

Banks have already developed and started implementing the activities for resisting the consequences from blackouts.

The list of branches that will be working even in cases of continued absence of power supply and cellular coverage. Improving their stability to operational risks banks carry significant expenses, including expenses on additional equipment for the branches. However, the largest component of losses from operational risk events is lost revenue.

In the second half-year net UAH corporate credit portfolio of the banks started to decrease. For the retail portfolio the tendency is more noticeable and goes on from the start of the war. The main reason for decrease is formation of credit reserves and repayments of previous loans that are not compensated by new payments. Slowdown in the economic activities is caused by security risks and absence of power supply that decrease the demand for loans. In times of war government programs is the main part of the support of loans.

Credit risk is still the biggest threat to financial sector. Banks have suffered sufficient losses. From the start of the war the payments to reserves are approximately 11% from the working credit portfolio that bank had at the end of February. At the highest risk are retail loans that are overdue and loans that suffered significant losses of operational assets and losses of market share.

Factual and potential losses on credit portfolio are comparable to July's estimation of National bank of Ukraine, amounting to 20%. At the same time, absence of power supply will decrease the markers of activities of even active businesses, that has paid out the loans on time. Employees revenue and operating cash flows of business will oftentimes be insufficient enough to fully pay out the loans. So now there are reasons to increase the estimate of losses on credit portfolio. If the scale of the problem with electricity persists the estimate could rise to 30%.

Banking sector stays operationally profitable. It provides the first line of defence for financial institutions against the credit losses. Interest incomes have risen significantly due to increases in assets which generate interest income as well as increased rates on investment instruments. At the same time, increases in share of cash restricted the costs of funding. After the rapid decrease in spring, commission income has risen due to stable demand for banking services and gradual renewal of rates. In September the profits returned to the pre-war level. Throughout the year most of the banks managed to optimize administrative

expenses. So despite the significant credit losses, the sector overall stayed profitable and cost effectiveness of capital for 11 months was over 9%.

Most of the banks still have reserves of capital more than minimal requirements. However, it is probable that the excess buffer will decrease. Some financial institutions are already violating the minimal requirements of reserve capital. National bank doesn't use any measures of influence for the violation of regulatory requirements for reserve capital if they are caused as a consequence of war.

The regimen of regulatory easing will go on for a long time. So financial institutions that have viable business models and capable of producing operational income will have enough time to renew the capital in case of need. On the other hand, the banks that are operationally not profitable will continue to be monitored by the regulator. The measures can be taken to meet the interest of the depositors

The National bank of Ukraine confirmed that throughout the 2023 they plan to assess the stability of banks to confirm the correctness of display of quality of loan portfolio, sufficiency of the reserves and assessment of the real size of regulatory capital. On the result of the assessment the minimum regulatory transition period for capital recovery will be determined. Most of the banks will be able to restore their capital with the help of future profits, but some of the banks may need help from the shareholders.

In the next years, in the process of solving current problems, the National bank will focus on long-term priorities of stabilization of rules of activities of the financial sector with European laws.

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

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

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

As for the end of the reporting period, the Bank's customer base is formed by business entities (146 customers), non-banking financial institutions (39 customers), individual customers (194 customers) and individual entrepreneurs (6 customers). The Bank serves 1009 accounts and 385 customers in total.

The main aspects of the Bank's activities:

- Trade in securities (mainly in the domestic government loan bonds and corporate bonds of blue chips)
- REPO (repurchase agreement) transactions with the domestic government loan bonds
- Active participation in the interbank credit market
- Forex transactions (including currency forwards, SWAP operations)
- Derivatives transactions (interest rate swaps, futures)

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 amounted to UAH 200 080 thousand at the date of this Report, which corresponds to the regulatory requirements.

Because of the full-scale military aggression of Russia against Ukraine, based on the proposal by National Security and Defence Council of Ukraine, President of Ukraine signed the laws on the extension of the Martial law till May 20th of 2023.

Unpredictability of further military changes does not allow to accurately evaluate the share of clients that will be able to make payments on loans as normal and the timeframe of that. However, even under favourable conditions losses for banks will be significant.

Considering the situation, management of the Bank conducts everyday operational monitoring of activities and ensures the quick response to current events and change of situation. Considering the situation, management of the Bank conducts everyday operational monitoring of activities and ensures the quick response to current events and change of situation. Also, the management of the bank doesn't expect the rapid worsening of the economic situation. Due to the financial support of international partners of Ukraine.

As a base of development of events the conservative option is taken. The bank doesn't consider the rapid economic growth next year because of obvious reasons. At the same time, the management of the Bank has all the reasons to expect the decrease in rates of inflation, controlled situation on the currency market, preservation of the volume of external financial aid to Ukraine, decrease of the refinance rate. Also, the performance of the primary and secondary markets of government securities are expected to return to the baseline.

Bank plans to continue to stick to requirements set by National Bank of Ukraine regarding the set values of economic standards, share capital and regulatory capital.

Since the beginning of its activity in 2013 and until now, the Bank's strategy has not changed significantly. Business plans and budgets are reviewed at least once a year in order to clarify the main indicators of the financial market, which are a prerequisite for their preparation, to make appropriate changes in the introduction of new products.

During 2022, the National Bank of Ukraine did not apply to the Bank any prohibitions on the restriction of activities that the Bank may perform in accordance with the issued permits and licenses, and there were no restrictions on the ownership of assets.

In the reporting year, the Bank's management did not make decisions on mergers, acquisitions, divisions, spin-offs or transformations of the Bank or on termination of certain activities of the Bank. 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.

3. INDICATORS OF THE BANK DEVELOPMENT IN 2022.

The Bank's assets as at the end of December 31, 2022 amounted to UAH 9 407 618 thousand (as of the end of the day on December 31, 2021 – UAH 2 323 671 thousand).

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

The Bank's liabilities as at the end of December 31, 2022 amounted to UAH 9 164 962 thousand (December 31, 2021: UAH 2 083 923 thousand). The resource base is formed by customer funds, in particular short-term funds of legal entities and individuals. The portfolio of client funds as of the end of December 31, 2022 amounted to UAH 9 098 712 thousand (December 2021: UAH 820 386 thousand).

In 2021, JSC BANK AVANGARD issued and placed Series A bonds in the amount of 100,000 (one hundred thousand) pieces, with a nominal value of UAH 1,000.00 per bond, maturing on April 8, 2026 and Series B bonds in the amount of UAH 100,000. 000 (one hundred thousand) pieces, with a nominal value of one bond of UAH 1,000.00, maturing on April 7, 2027. During 2021 Bank repurchased the bonds Series A in the amount of 77 500 pieces maturing on April 8, 2026 and Series B bonds in the amount of 97 500 pieces maturing on April 7, 2027. In first quarter of 2022 the bank repurchased the bonds in amount of 18 000 pieces maturing on April 8, 2026.

As of December 31, 2022, the Bank has placed bonds in the amount of UAH 7 million.

As at the end of December 31, 2022, the Bank's Equity amounted to UAH 242 657 thousand (December 31, 2021: UAH 239 748 thousand). The main component of Equity is the authorized capital of the Bank.

As at December 31, 2022 the authorized capital of the Bank was UAH 200,080 thousand (December 31, 2021 – UAH 200,080 thousand).

As of the end of December 31, 2022, the regulatory capital of the Bank amounted to UAH 241 683 thousand, including level I capital in the amount of UAH 209 965 thousand and level II capital in the amount of UAH 32 719 thousand and the return – UAH 1 001 thousand.

During 2022 there were operations with acquiring and alienation of assets in the amount that exceeds the amount, set in the charter according to decision of the Shareholder on commitment of significant transactions.

During the reporting period, the Bank complied with the economic standards of the National Bank of Ukraine, which at the end of December 31, 2022 had the following meanings:

	Characteristic value	As at the end of 31 December 2022	As at the end of 31 December 2021
Regulatory capital ratio (N1)	UAH 200 000 thousand	UAH 241 683 thousand	UAH 238 397 thousand.
Regulatory capital adequacy ratio (N2)	Not less than 10%	52,48%	37,36%
LCRBB	100%	109,7927%	472,1178%
LCRIB	100%	594,6036%	342,1157%

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

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

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

Following the results of 2022, the Bank's activities are income-generating and the net profit amounted to UAH 3 556 thousand.

More information is provided in the Annual Financial Report of the Bank for 2022.

Credit-Rating Independent Credit Rating Agency confirmed the Bank's credit rating at uaAAA level on February 16, 2023, indicating the forecast as "stable" and excluding the Bank from control list. The credit rating report is available at: <https://avgd.ua/wp-content/uploads/AVNG-001-020short.pdf>

4. PLANS OF THE BANK FOR 2023 AND FOR LONG-TERM PROSPECTS.

In 2023, due to changes in market conditions, the Bank plans to maintain a portfolio of Domestic government bonds in the amount of at least ~ UAH 350 million. The Bank plans to raise funds from counterparties under the best market conditions in order to invest in Domestic government bonds. The remaining assets will consist of funds in other banks and short-term loans to reliable borrowers. At the same time, 85% of the Bank's assets are placed for up to 30 days, and at least 85% of assets are highly liquid, as they consist of interbank credit operations, portfolio of domestic government bonds and balances on correspondent accounts in the most reliable banks in Ukraine and foreign banks. At least 90% of attracted funds of clients are funds of legal entities. This structure of assets will be maintained until certain decisions are made on the introduction of new products in the coming years.

In years 2023-2025 the Bank plans to maintain the same structure and quality of assets as the previous periods.

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

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

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

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

An important area of work is also the opening of direct correspondent accounts with leading international banks, and in the future – creating the network of loro accounts, that will allow to significantly increase the commission income.

In 2022, the Bank confirmed the compliance of its procedures with the requirements of international standards for quality management system ISO 9001:2015 and information security management system ISO 27001:2013. During the years 2023-2025 the Bank plans to build a business continuity management system according to international standard ISO 22301.

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

It plans to strengthen the cryptographic stability of its payment mechanisms and systems, will work on creating an innovative platform for the development of new products and services. This will be facilitated, among other things, by the introduction of new products for ensuring, monitoring and auditing information security, continuing the use of EDS in the Bank's activities, expanding the scope of electronic document management.

In the years 2023-2025 the Bank plans to continue its activity according to anti-corruption procedures in accordance with international standard ISO 37001, that gains popularity in the world.

The Bank's goal is to become absolutely Digital Bank by the end of 2024, as far as the current legislation will allow, while maintaining its own business model. To this end, all operating procedures will be optimized, new software products will be introduced, which will automate all routine procedures, speed up all necessary database checks, perform settlement operations as efficiently as possible to maintain high reliability and high profitability of the Bank.

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

The strategy and other plans could be reviewed with the purpose of clarification of indicators of financial market that are a prerequisite to its preparation and making changes on the condition of implementation of new products.

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 2025.

6. RESOURCES OF THE BANK.

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

The resource base is formed by customer funds, in particular, short-term funds of legal entities and individuals. Despite the predominance of funds in current accounts of customers against the background of concentration of liabilities to major creditors, the lack of a regional network, small number of customers and predictability of their cash flows, as well as a significant amount of highly liquid assets, reduce the Bank's sensitivity to liquidity risk.

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

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

7. CORPORATE MANAGEMENT REPORT.

7.1. OBJECTIVE OF ACTIVITIES OF THE FINANCIAL INSTITUTION.

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

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

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

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

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

The Bank has been complied with the Corporate Governance Code of the Bank and the principles specified therein during 2022, there were no deviations.

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

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

7.3. HOLDERS OF THE SUBSTANTIAL SHAREHOLDING IN THE BANK.

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

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

- Legal Entity ICU HOLDINGS LIMITED (Location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands), which indirectly owns: 100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD;
- Legal entity NAREMIUS HOLDINGS LTD (Location: Tortola Pier Park, building 1, 2nd floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands) which indirectly owns: 50% stake in the Bank through the legal entity ICU HOLDINGS LIMITED, which indirectly owns: 100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD;
- Legal entity FILTESA HOLDINGS LTD (Location: Tortola Pier Park, building 1, 2nd floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands) which indirectly owns: 50% stake in the Bank through 50% stake in the legal entity ICU Holdings Limited, which indirectly owns: 100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD and

A group of persons with common economic interests, namely:

- Individual Stetsenko Kostyantyn Viktorovych, who indirectly owns 50% stake in the Bank through 100% stake in the legal entity NAREMIUS HOLDINGS LTD though the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% in the Bank through 100.00 % stake in the legal entity WESTAL HOLDINGS LTD; and
- Individual Paseniuk Makar Yuriyovych, who indirectly owns 50% stake in the Bank through 100% stake in the legal entity FILTESA HOLDINGS LTD through the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100.00% in the Bank through 100.00 % stake in the legal entity WESTAL HOLDINGS LTD.

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

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

7.4. THE BANK'S MANAGEMENT SYSTEM.

The supreme governing body of the Bank is the General meeting of the shareholders. The Supervisory board is a collegial body of the Bank that ensures control over the activity of Management of the Bank, protection of rights of investors, other creditors and shareholders of the Bank according to the charter of the Bank, terms on Supervisory board of the Bank and the current law of Ukraine. The Supervisory board doesn't take part in the current management of the Bank.

According to the current legislation the exclusive competence of the Supervisory Board includes:

- 1) approval of Regulation on Management board, Regulations of internal audit service, risk management service, compliance service, the corporate secretary (in case of their appointment), on permanent and temporary committees of Supervisory board (in case of their appointment), other internal regulations approval of which is in the competence of the Supervisory board by the law of Ukraine; approval of regulations that manage the activities of the Bank, except for those that are in the exclusive competence of General meeting of Shareholders and those that are assigned to the Management of the Bank by the Supervisory Board.
- 2) decision-making on holding the General Meeting of Shareholders, approval of the agenda of the meeting and inclusion of proposals in the agenda of the meeting, election of the registration commission, decision-making on the date of their holding and on inclusion of proposals in the agenda of the meeting, except for the extraordinary meetings of shareholders; decision-making on holding the extraordinary or regular General meetings according to the Charter and in cases, legislated by law on JCS
- 3) decision-making on redemption and placement by the Bank of other securities, except for shares
- 4) Control over the activities of Management Board, making recommendations on it's improvement; consideration of report of the Board and approval of activities based on results of its consideration, decision-making on the consequences derived from the report of the Board
- 5) approval of the market value of the property in cases provided by law;
- 6) election and termination of powers of the Chairperson and members of the Management Board of the Bank, control over the activities of the Management Board; decision-making on removal of the Chairperson of the Management Board of the Bank from the performance of his powers and election of a person who will temporarily exercise the powers of the Chairperson of the Management Board of the Bank; decision-making on holding the Chairperson and members of Management of the bank accountable
- 7) election and dismissal of the head of the Bank's internal audit service, Head of risk-management, Head compliance manager;
- 8) Determination of the terms of activity and plans of internal service of audit;
- 9) approval of terms of employment contracts that are established with the Chairperson and members of Management of the board, Head and members of internal audit service of the Bank, Head of risk-management and Head compliance manager about their remuneration.

- 10) determination of the external auditor and establishing the procedure for conducting yearly audit of financial statement; establishing the terms of the contract with them, the auditor's fee; review of the external auditor's conclusion and preparation of recommendations to the General meeting for deciding on the auditor's conclusion.
- 11) Determination of the date of compiling the list of persons that have the right to receive dividends, terms and periods of payment of dividends within the time limit, determined by Charter and current law of Ukraine.
- 12) Decision-making on agreeing on significant transactions by the Bank and related-party transactions in cases, stipulated by law.
- 13) determination of probability of default as a conclusion of taking on obligations or complying to fulfil the obligation, including the payment of dividends and purchasing shares;
- 14) decision-making on appointment (change) of depositary institution, which provides the Bank with additional services, approval of terms of contract, concluded with it, determination of payment for their services;
- 15) decision-making on creation, reorganization and elimination of legal entities, creation of branches and representative offices of the Bank in other States, approval of their Charters regulations, including participation of the Banks in legal entities, where Banks share is no less than 10 percent of their share capita; determination of the matters of participation of the Bank in industrial alliances and other associations or groups;
- 16) election of the Corporate secretary and approval of statement on Corporate secretary;
- 17) creation of temporary and constant committees of the Board, determination of their personnel, competence and other issues of functioning, consideration of reports of temporary and constant committees of the Board;
- 18) determination of procedure of conducting revisions and control over financial and economic activities of the Bank;
- 19) decision-making, attributed to competence of the Board by current Law, in case of merger, consolidation, disintegration, separation or transformation of the Bank;
- 20) determination of organizational structure of the Bank, including structure of Risk-management System, Compliance System, Internal Audit System of the Bank;
- 21) determination and control over the realization of Bank strategy, business-plan, plans on restoring activity of the Bank, financing of the Bank in crisis situations, ensuring going concern of the Bank;
- 22) determination and control over the compliance of strategies and policies of risk-management, risk appetite statement, list of limits regarding risks of the Bank; ensuring the functioning and control of effectiveness of complex and adequate system of Banks internal control, including systems of risk-management, internal audit; control of the effectiveness of risk-management;
- 23) determination of sources of capitalization and other financing of the Bank; determination of credit policy of the Bank;
- 24) determination and control over the ensuring the procedure for carrying out the related party transactions to the Bank, which should include requirements regarding the detection and control over operations with related party transactions;

25) determination of Banks remuneration policy in accordance with the requirements established by the National Bank of Ukraine, including ensuring control over its realization; approval of the report on remuneration of board members;

26) implementation of annual assessment of effectiveness of Supervisory Board of the Bank overall and it's every member, including committees of Supervisory Board of the Bank, assessment of compliance of collective sustainability of Supervisory Board of the Bank, size of the Bank, complexity, volume, types, character of Banks operations, organizational structure and profile of Banks risk, taking into account specifics of Banks operations and activities of bank group, to which the Bank is included, and taking action on improving the mechanisms of activities of Banks Board on result of the assessment;

27) implementation of annual assessment of effectiveness of the Board of the bank overall and it's every member including, Risk-management system, Compliance system, Internal Audit system, assessment of adequacy of Banks Board members, Head of risk-management, Head Compliance manager, Head of Internal Audit system qualification requirements, assessment of adequacy of collective suitability. Conformity of Bank's board size, complexity, volume, types, character of Banks operations, organizational structure and profile of Banks risk, taking into account specifics of Banks operations and activities of bank group, to which the Bank is included, and taking action on improving the mechanisms of activities of the Compliance system, Internal Audit system on result of the assessment;

28) ensuring control over the activities of the Risk-management system, Compliance system, Internal audit system of the Bank, and making recommendations about its improvement;

29) implementation of other authorities, within the competence of Supervisory Board in accordance to the law of Ukraine on JSCs, current law of Ukraine, and Charter of the Bank.

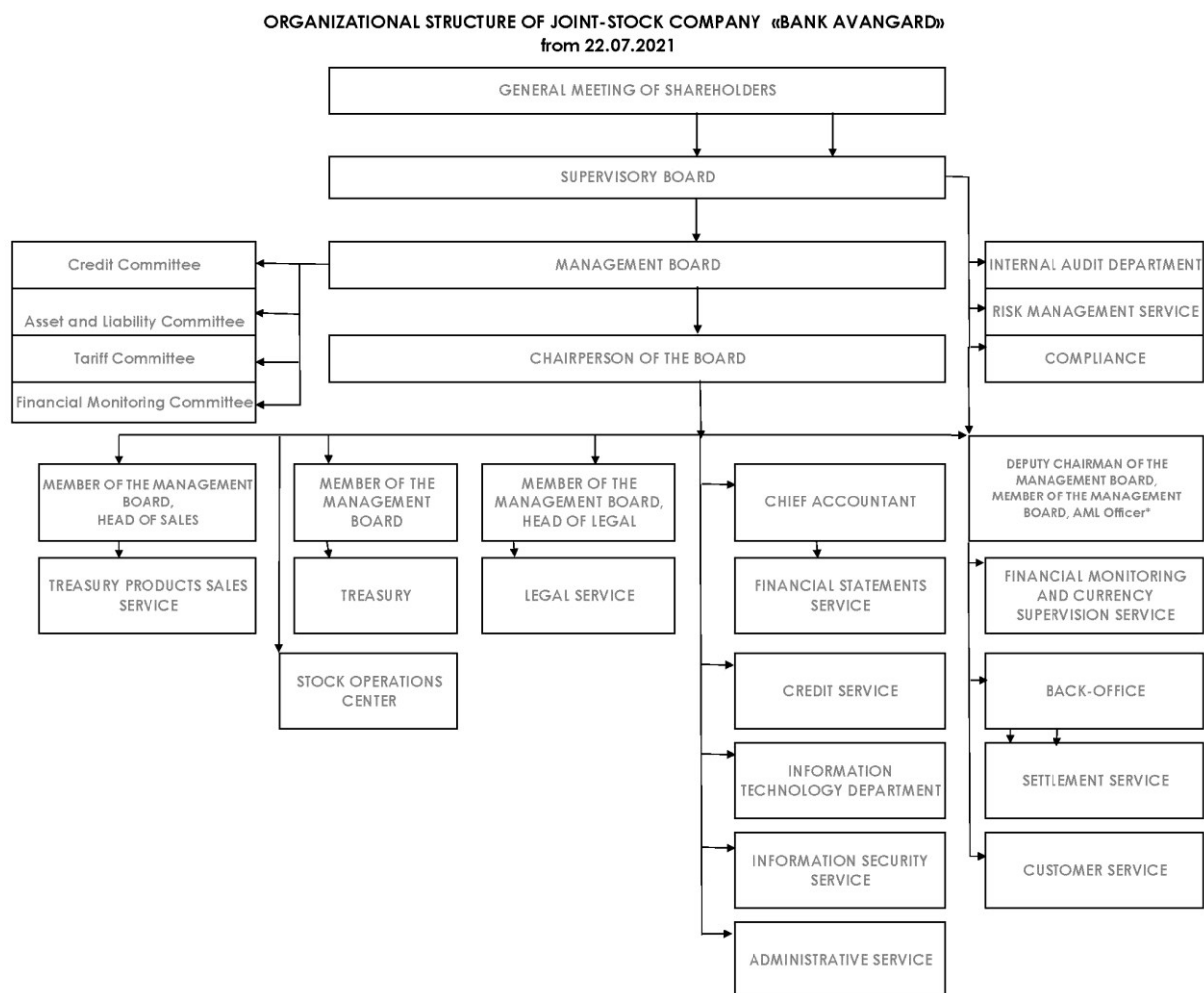
The executive body of the Bank is the Management Board, which manages the current activities of the Bank, the formation of funds necessary for the statutory activities of the Bank, and is responsible for its effectiveness in accordance with the principles and procedures established by the Bank's Charter

The executive body of the Bank is the Management Board, which manages the current activities of the Bank, except for those, in exclusive competence of General Meeting of shareholders. General Meeting and Supervisory Board can make a decision regarding transfer of authority to the competence of the Board except for authority, referred to by applicable law of Ukraine and Bank's Charter to exclusive competence of each of the organs of managing the Bank.

The Management board is accountable to Supervisory Board of the Bank. 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; considers and approves internal documents of the Bank within its competence, decides on the establishment, management and liquidation of structural units of the Bank, except for those decisions on which are exclusively the competence of the Supervisory Board of the Bank, and exercises other powers under current legislation of Ukraine.

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

Organizational structure of the Bank



The number of employees of the bank at the end of 2022 is 28 people. The Bank does not plan a significant increase in staff or significant personnel changes. The Bank has no separate structural subdivisions.

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

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

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

According to Article 60 of the Law of Ukraine "On Joint Stock Companies" (hereinafter - the Law), the provisions of Articles 40 - 57 of the Law on the procedure for convening and holding general meetings of shareholders do not apply to a company with one shareholder (similar provisions were in previous version of the mentioned law).

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

During 2022, there were no restrictions on the rights of participation and voting of shareholders at the General Meeting of Shareholders of the Bank.

In 2022, the sole shareholder of the Bank made such decisions.

Date	Agenda	Decisions taken
12.01.2022	1. About the Bank's significant transactions	To allow the Bank from 01.01.2022 to 31.12.2022 (inclusive) significant transactions each amounting to UAH 500.00 million (inclusive), concerning: purchase / sale and repo transactions of domestic government bonds of Ukraine and / or certificates of deposit National Bank of Ukraine; conducting transactions of purchase / sale of foreign currency; raising funds on the interbank market; raising funds from clients, as well as carrying out credit operations that are fully secured by cash coverage and / or pledge of property rights to deposit in the Bank. When conducting active operations, the Bank is obliged to comply with the debt limit of one counterparty (mandatory economic standard H7, set by the National Bank of Ukraine) both during external settlements and during the term of this operation, except for transactions under agreements advance payments in favour of the Bank. These restrictions do not apply to operations on the transfer of funds between the Bank's own correspondent accounts (NOSTRO accounts) in correspondent banks, the amount (limits) of balances for which is determined by a separate decision to determine the limit of the balance on the correspondent account. Decisions in this paragraph do not apply to transactions with the National Bank of Ukraine To allow the Bank to enter into significant transactions with the National Bank of Ukraine each amounting to UAH 7,000.00 million. (inclusive), concerning: conducting active operations with the National Bank of Ukraine related to credit risk, including, but not limited to, operations of purchase / sale of certificates of deposit of the National Bank of Ukraine, as well as operations on obtaining refinancing loans from the National Bank Of Ukraine (including overnight) in accordance with the General Loan Agreement with the National Bank of Ukraine and interest rate swap operations in accordance with the General Agreement on interest rate swap operations with the National Bank of Ukraine concluded in accordance with the Shareholder's decisions

27.01.2022	1. On approval of the terms of agreements with members of the Supervisory Board, establishment of the amount of their remuneration, election of the person authorized to sign them. 2. On amending the Charter of the Bank and approval of Charter in new edition. 3. On making changes and additions to the Bank's internal documents.	1. Approve the terms of agreements concluded with the Chairperson and members of the Supervisory Board of the Bank, as well as the amount of their remuneration. To elect Korchynska S.A., the Chairperson of the Board of the Bank, as the person authorized to sign agreements with the Chairperson and members of the Supervisory Board of the Bank. 2. To amend the Charter of the Bank and approve it in new version and authorize the Chairperson of the Board Korchynska S.A. to sign the Charter in new edition. 3. To amend the Regulations on the Supervisory Board of JSC "BANK AVANGARD" and approve it in a new wording. To amend the Regulations on the Management Board of JSC BANK and approve it in a new wording.
28.04.2022	1. On consideration of the report of the Supervisory Board of the Bank for 2021. and deciding on the results of its consideration. 2. On consideration of the report of the Supervisory Board of the Bank for 2021. and deciding on the results of its consideration. 3. On approval of the Regulations on remuneration of members of the Supervisory Board of the Bank; 4. On approval of the Report on Remuneration of Members of the Bank's Supervisory Board; 5. To approve the report and conclusion of the external auditor of AC CROWE UKRAINE LLC on the results of the audit of the annual financial statements of the JSC BANK AVANGARD for 2021 without comments and additional measures. 6. On approval of the results of activities and the annual report of the Bank for 2021. 7. On the distribution of profits for 2021	1. To approve the report of the Board of JSC "BANK AVANGARD" on the results of financial and economic activities of the JSC BANK AVANGARD for 2021. 2. To approve the report of the Supervisory Board of JSC BANK AVANGARD for 2021 3. To approve the Bylaw on Remuneration of Members of Supervisory Board of JSC "BANK AVANGARD" (new wording). 4. To approve the Bylaw on Remuneration of Members of the Supervisory board of JSC "BANK AVANGARD". 5. To approve the Report and conclusion of the external auditor of AC CROWE UKRAINE LLC based on the results of the audit of the annual financial statements of the JSC "BANK AVANGARD" for 2021 without comments and additional measures. 6. To approve the annual report (annual financial statements) of the JSC "BANK AVANGARD" for 2021 To approve the results of the JSC BANK AVANGARD for 2021, namely the profit in the amount of UAH 10 455 417,49 7. The profit of JSC BANK AVANGARD according to the results of activity in 2021 in the amount of UAH 10,455,417.49 to be distributed as follows: The part of the profit in the amount of UAH 522,770.87 to be sent to the reserve fund of JSC "BANK AVANGARD"; To leave part of the profit in the amount of UAH 9,932,646.62 undistributed.

05.07.2022	1. On amending the Charter of the Bank and approval of Charter in new edition. 2. On making changes and additions to the Bank's internal documents.	1. To amend the Bank's Charter and approve the Bank's Charter in a new wording and to authorize the Chairperson of the Management Board Svitlana Korchynska to sign the Charter in a new wording. To amend the Bylaw on the General Meeting of Shareholders of JOINT-STOCK COMPANY «BANK AVANGARD» and approve it in a new wording. 2. To amend the Bylaw on the Supervisory Board of JOINT-STOCK COMPANY «BANK AVANGARD» and to approve it in a new wording.
31.10.2022	1. On approval of the Regulations on remuneration of members of the Supervisory Board of the Bank; election of the person authorized to sign them.	1. To approve changes to the terms of the agreements concluded with the Chairperson and members of the Supervisory Board of the Bank, as well as the amounts of their remuneration. To elect Korchynska S.A., the Chairperson of the Board of the Bank, as the person authorized to sign agreements with the Chairperson and members of the Supervisory Board of the Bank.
08.11.2022	1. About the Bank's significant transactions	1. To allow the Bank to enter into significant transactions (deals) with National Bank of Ukraine each in the amount of up to UAH 10 000 million (inclusive) regarding: conducting of active operations related to credit risk with the National Bank of Ukraine, including, but not limited to, transactions of purchase / sale of certificates of deposit of the National Bank of Ukraine, as well as operations on obtaining refinancing loans from the National Bank of Ukraine (including overnight) in accordance with the General Loan Agreement with the National Bank of Ukraine and interest rate swap transactions in accordance with the General Agreement on interest rate swap transactions with the National Bank of Ukraine, concluded in accordance with the Shareholder's decisions, which remain in force and continue to be valid.
27.12.2022	1. On approval of the Regulations on remuneration of members of the Supervisory Board of the Bank; election of the person authorized to sign them.	1. To approve changes to the terms of the agreements concluded with the Chairperson and members of the Supervisory Board of the Bank, as well as the amounts of their remuneration. To elect Korchynska S.A., the Chairperson of the Board of the Bank, as the person authorized to sign agreements with the Chairperson and members of the Supervisory Board of the Bank.

7.6. THE SUPERVISORY BOARD OF THE BANK.

The Supervisory Board of the Bank is a collegial body that controls the Management of the board, protects the rights of depositors, other creditors and shareholders of the Bank according to the Charter of the Bank and Provision on the Supervisory board of the Bank and the legislation of Ukraine. The Supervisory board does not take part in current management of the Bank.

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

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

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

As of January 1, 2022, the Supervisory Board of the Bank worked in the following composition:

The Chairperson of the Supervisory Board:	K. V. Stetsenko
Members of the Supervisory Board (shareholder representatives):	M. Y. Paseniuk R. I. Kilmukhametov
Independent Members of the Supervisory Board:	M. V. Stetsenko V. V. Gladun O.M. Kurinnyy

The Chairperson and members of the Supervisory Board independently reviewed the content of the Bank's internal documents regarding their rights and obligations. In 2022 there were no changes made to the structure of the Supervisory board.

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

In order to ensure the independence of the Supervisory Board, independent members of the Supervisory Board are elected, which is confirmed by the absence of any significant business, family or other ties with the Bank, members of the Management Board or major Shareholder of the Bank, other than that, such independent members are not the representatives of the State.

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

The organizational form of the Supervisory Board's work is the meetings at which it made decisions in 2022, in accordance with the competence defined by the Bank's Charter and the Regulations on the Supervisory Board.

During 2022, 5 meetings of the Supervisory Board were held, including joint meetings with the Management Board. Total of 10 decisions were made by absentee voting. All meetings of the Supervisory Board that took place are valid.

The Supervisory Board consists of the Chairperson and other members of the Supervisory Board (hereinafter together - members of the Supervisory Board). According to the Bank's Charter, the number of members of the Supervisory Board must be 6 (six). Members of the

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

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

Only an individual can be a member of the Supervisory Board. Members of the Supervisory Board may be independent members of the Supervisory Board, shareholders of the Bank and representatives of the Bank's shareholders. A member of the Supervisory Board may be an individual who has full civil capacity. Election of members of the Supervisory Board is carried out exclusively by cumulative voting, in the manner prescribed by the current legislation of Ukraine, except in cases where the shareholder of the Bank is one person. Nominations of members of the Supervisory Board are submitted to the General Meeting by the Bank's shareholders. When electing members of the Supervisory Board, together with information about each candidate (surname, name, patronymic (name) of the shareholder, the size of the block of shares belonging to him) to the members of the Supervisory Board, the ballot paper shall indicate whether such a candidate is a shareholder, a representative of a shareholder or a group of shareholders (indicating information about that shareholder or shareholders) or whether he is an independent member. A member of the Supervisory Board elected as a representative of a shareholder or group of shareholders may be replaced by such shareholder or group of shareholders at any time. Members of the Supervisory Board are elected by the shareholders during the General Meeting for a term not exceeding three years.

If the number of members of the Supervisory Board whose powers are valid is less than half of its number elected in accordance with the law by the General Meeting, the Bank shall convene an extraordinary General Meeting within three months to elect the remaining members of the Supervisory Board, voting - to elect the entire Supervisory Board of the Bank.

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

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

A member of the Supervisory Board may not be a member of the Management Board of the Bank at the same time, as well as hold other positions in the Bank under the terms of an employment contract. A member of the Supervisory Board may not be the head, official and / or member of the board of a bank or other governing body of another bank registered in Ukraine, except as provided by the legislation of Ukraine.

A member of the Supervisory Board must perform his / her duties personally and may not delegate his / her powers to another person. Members of the Supervisory Board may be remunerated for their activities. The procedure for payment of remuneration to members of the Supervisory Board is established in accordance with the legislation of Ukraine.

Chairperson of the Supervisory Board

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

Chairperson of the Supervisory Board:

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

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

Members of the Supervisory Board have the right to:

- 1) participate in the meetings of the Management Board of the Bank;
- 2) receive complete, reliable and timely information about the Bank, necessary for the performance of its functions;
- 3) get acquainted with the Bank's documents, receive their copies, as well as copies of the documents of the Bank's subsidiaries. The above information and documents shall be provided to the members of the Supervisory Board within 5 (five) days from the date of receipt by the Bank of the relevant request addressed to the Chairperson of the Management Board of the Bank;

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

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

Responsibilities of the members of the Supervisory Board:

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

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

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

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

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

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

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

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

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

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

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

Remuneration to members of the Supervisory Board is paid in accordance with the decisions of the General Meeting of Shareholders of the Bank (decisions of the sole shareholder), and disclosed in the Annual Financial Statements of the Bank for 2022 (Note 36 "Related party transactions"). With the exception of individual members of the Supervisory Board, members of the Supervisory Board are paid a fixed remuneration.

In 2022, remuneration of Supervisory board amounted to UAH 580,401 thousand (2021 – UAH 368 thousand), including: variable remuneration – UAH 580,087 thousand (2021 – UAH 78 thousand), fixed – UAH 314 thousand (2021 – UAH 290 thousand).

Based on results of verification of compliance of the Chairperson and members of the Supervisory Board set by current law of Ukraine, was carried out by the bank in December 2022:

- 1) The Chairperson and members of the Supervisory Board of the Bank have university degree and significant experience in the financial sector, make informed decisions, which indicates their competence and efficiency, which is confirmed by the results of the Bank's activities during the reporting year.
- 2) The Chairperson and members of the Supervisory Board of the Bank meet the requirements of current legislation of Ukraine, as well as qualification requirements for professional suitability and business reputation throughout their tenure, and independent members of the Supervisory Board also meet the requirements for their independence.
- 3) The Chairperson and members of the Supervisory Board of the Bank don't have the citizenship of the country that conducts the armed aggression against Ukraine.
- 4) The Chairperson and members of the Supervisory Board are not members of the Management Board of the Bank.
- 5) The Chairperson and members of the Management Board are not members of the Supervisory Board of the Bank.
- 6) The Chairperson and members of the Supervisory Board of the Bank have an impeccable business reputation, are not members or members of the governing bodies of a legal entity that competes with the activities of the Bank.
- 7) The facts of violation of internal documents by the Chairperson and members of the Supervisory Board of the Bank, which led to damage to the Bank or the Bank's clients, have not been revealed.
- 8) The facts of application of measures of influence by public authorities to the Chairperson and members of the Supervisory Board of the Bank have not been revealed.
- 9) The facts of the existence, including potential, of a conflict of interest, which would not have been declared and / or for which appropriate measures would not have been taken, have not been revealed.

7.7. MANAGEMENT BOARD OF THE BANK.

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

The competence of the Management Board includes resolving all issues related to the management of the current activities of the Bank, except for issues that fall within the exclusive competence of the General Meeting and the Supervisory Board of the Bank. The General Meeting and the Supervisory Board may decide to transfer part of their powers to the competence of the Management Board, except for the powers referred

to by the current legislation of Ukraine and the Bank's Charter to the exclusive competence of each of these Bank management bodies.

As of January 1, 2022, the Management Board of the Bank consisted of the following members:

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

During 2022 there were no changes to the composition of the Management board.

The organizational form of the Management Board's work is meetings at which it made decisions in 2022, in accordance with the competence defined by the Bank's Charter and the Regulations on the Management Board.

During 2022, 38 meetings of the Management Board were held, including joint meetings with the Supervisory Board of the Bank. All meetings of the Management Board that have taken place are valid.

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

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

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

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

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

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

Management Board, the Deputy Chairperson of the Management Board and other members of the Management Board shall be established by the current legislation of Ukraine.

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

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

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

- To act on behalf of the Bank without a power of attorney, including: to represent the interests of the Bank in state institutions, enterprises of all forms of ownership and public organizations, in all law enforcement and regulatory agencies; perform transactions on behalf of the Bank and perform all legally significant actions; enter into and sign agreements, contracts;
- To represent the Bank without a power of attorney, including in relations with other business entities and individuals both in Ukraine and abroad;
- To issue a power of attorney on behalf of the Bank; distribute responsibilities among the members of the Management Board of the Bank;
- To issue orders and issue orders that are binding on all employees of the Bank; to hire and dismiss employees of the Bank, take measures to encourage them and impose disciplinary sanctions in accordance with current legislation of Ukraine, the Charter and internal documents of the Bank;
- To establish forms, systems and procedures for remuneration of the Bank's employees in accordance with the current legislation of Ukraine, approve the staffing of the Bank and staffing of separate divisions, determine the amount of salaries of all employees of the Bank;
- To sign a collective agreement on behalf of the Bank; approve job descriptions of the Bank's employees;
- To take measures for pre-trial settlement of disputes, sign lawsuits, complaints and all documents related to court hearings of claims and complaints, represent the Bank in the courts with all rights granted by law to the plaintiff, defendant, third party, including fully or partially waive claims, recognize the claim, change the subject of the claim, enter into an amicable agreement, appeal the court decision, submit an executive document for recovery or issue a power of attorney to take appropriate action to another person;
- To participate in the meetings of the Supervisory Board with the right of advisory vote;
- To perform other functions necessary to ensure the current activities of the Bank.

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

In case of temporary absence of the Chairperson of the Management Board, the acting Chairperson of the Management Board may be assigned to the Deputy Chairperson of the Management Board on the basis of an order of the Chairperson of the Management Board. A person temporarily entrusted with the duties of the Chairperson of the Management Board for the period of his absence has all the powers of the Chairperson of the Management Board of the Bank provided by the legislation of Ukraine, the Charter and

Regulations of the Management Board, including acting without a power of attorney on behalf of the Bank's enterprises and organizations.

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

Members of the Management Board have the right:

- 1) to receive complete, reliable and timely information about the Bank, necessary for the performance of their functions;
- 2) independently and as part of the Management Board to resolve issues of operational management of the Bank, which are related to their powers and functional responsibilities;
- 3) to make proposals, participate in the discussion and vote on the agenda of the Board meetings;
- 4) to initiate the convening of meetings of the Board;
- 5) to provide written comments on the decision of the Board;
- 6) to demand the convening of extraordinary meetings of the Supervisory Board;
- 7) to receive a fair remuneration for the performance of the functions of a member of the Management Board, the amount of which is set by the Supervisory Board.

Responsibilities of the members of the Management Board:

- 1) to act in the interests of the Bank in good faith, reasonably and within the limits of its powers;
- 2) to be guided in its activities by the current legislation of Ukraine, the Charter, these Regulations, other internal documents of the Bank;
- 3) implement the decisions adopted by the General Meeting and the Supervisory Board;
- 4) to participate personally in the meetings of the Management Board (including remotely), as well as be present at the General Meeting at the invitation of the Chairperson of the Supervisory Board or the person convening them. In case of impossibility to be present at the General Meeting, to notify in advance the person from whom the invitation was received, indicating the reasons for such impossibility;
- 5) be present at the meetings of the Supervisory Board at the invitation of the Chairperson or a member of the Supervisory Board. In case of impossibility to be present at the meeting of the Supervisory Board, to notify in advance the person from whom the invitation was received, indicating the reasons for such impossibility;
- 6) be a member of the Bank's credit committees in accordance with the procedures established by the Bank;
- 7) when concluding transactions with the participation of the Bank, in the commission of which there is an interest or the presence of a conflict of interest, to comply with the legally established rules and requirements for concluding such transactions;
- 8) comply with the rules established by the Bank related to the regime of circulation, security and storage of information with limited access. Not to disclose bank secrets, confidential and insider information, which became known through the performance of the functions of a member of the Management Board to persons who do not have access to such information, as well as to use it in their own interests or in the interests of others;
- 9) to prepare timely for the meetings of the Management Board, in particular, get acquainted with the materials prepared for the meeting, collect and analyse additional information, if necessary, receive expert advice, etc.;

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

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

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

During 2022, the Bank had such committees of the Management Board

- Credit Committee
- Tariff Committee
- Assets and Liabilities Management Committee
- Committee on Financial Monitoring

Composition of committees as of 31.12.2022

- Credit Committee:
 - o Chairperson: Kokodynskyi V.O.
 - o Deputy Chairperson of the Committee: Burovsky A.S.
 - o Members: Korchynska S.A., Dvorzhanska I.Y., Krohmal Y.Y.
- Tariff Committee:
 - o Chairperson: Kokodynskyi V.O.
 - o Deputy Chairperson of the Committee: Burovsky A.S.
 - o Members: Korchynska S.A., Dvorzhanska I.Y., Krohmal Y.Y.
- Assets and Liabilities Management Committee:
 - o Chairperson: Kokodynskyi V.O.
 - o Deputy Chairperson of the Committee: Burovsky A.S.
 - o Members: Korchynska S.A., Dvorzhanska I.Y., Krohmal Y.Y.
- Financial Monitoring Committee:
 - o Chairperson: Dvorzhanska I.Y.
 - o Members: Starostenko O.V., Velychko V.A., Tyshchenko S.V., Solovyova K.S., Kokodynskyi V.O., Demkiv M.O.

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

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

The results verify that the Chairperson and members of the Board of the legislation of Ukraine the requirements made by the Bank in December 2022

1. The Chairperson and members of the Management Board of the Bank have university degree and significant experience in the financial sector, make informed decisions, which indicates their competence and efficiency, which is confirmed by the results of the Bank's activities during the reporting year.
2. The Chairperson and members of the Management Board of the Bank shall meet the requirements of the current legislation of Ukraine, as well as the qualification requirements for professional suitability and business reputation during the entire period of holding the relevant positions.
3. The Chairperson and members of the Management Board of the Bank don't have the citizenship of the country that conducts the armed aggression against Ukraine.
4. The Chairperson and members of the Management Board are not members of the Supervisory Board of the Bank.
5. The Chairperson and members of the Management Board are not members of the Supervisory Board of the Bank.
6. The Chairperson and members of the Management Board of the Bank have an impeccable business reputation, are not members or members of the governing bodies of a legal entity that competes with the activities of the Bank.
7. The facts of violation of internal documents by the Chairperson and members of the Management Board of the Bank, which led to damage to the Bank or the Bank's clients, have not been revealed.
8. The facts of application of measures of influence by public authorities to the Chairperson and members of the Management Board were not revealed.
9. The facts of the existence, including potential, of a conflict of interest, which would not have been declared and / or for which appropriate measures would not have been taken, have not been revealed.
10. The facts listed in paragraph 85 of the Regulation on Financial Monitoring regarding the responsible employee for financial monitoring have not been identified.

Remuneration to the members of the Management Board is paid in accordance with the decisions of the Supervisory Board of the Bank, which is disclosed in the Annual Financial Statements of the Bank for 2022 (Note 36 "Related party transactions").

In 2022 remuneration to the members of Management board was paid in amount of UAH 12,188 thousand (2021 – UAH 10,241 thousand), consisting of: variable – UAH 3,569 thousand (2021 – UAH 2,353 thousand), fixed – UAH 8,619 thousand (2021: UAH 7,888 thousand).

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

7.8. RISK MANAGEMENT SYSTEM OF THE BANK.

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

The main tools for achieving these goals are the Bank's comprehensive risk management system, which provides for the coordination of actions of all departments within a single strategy for risk management, approved by the Supervisory Board of the Bank. The formation of a comprehensive system is aimed at maximizing the concentration of risk

management functions in the Bank, the continuous process of analysing the situation and environment in which risks arise, and making management decisions to influence the risks themselves and / or the level of vulnerability (exposure) to such risks.

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

The division of functions and powers in risk management covers all organizational levels and divisions of the Bank. The principal structure of the Bank's risk management provides for the participation of the Supervisory Board, the Management Board, profile committees, the Risk Management Service and structural subdivisions of the Bank in the risk management process.

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

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

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

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

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

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

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

- credit risk;
- liquidity risk;
- interest rate risk of the banking book;
- market risk;
- operational risk;
- compliance risk;
- other significant risks (reputation, strategic, risk of professional activity in the stock market).

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

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

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

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

- Internal: small amount of capital; short term of activity; low risk-appetite (significantly reduces profitability during the period of systemic reduction of interest rates in the market); insufficiently established mechanisms for attracting new customers, limited opportunities to open direct correspondent accounts; the Bank's brand is used by custom media to discredit the founders.
- External: political and economic instability; military aggression from Russian federation; inability of some borrowers to pay the loans, decrease of payment discipline caused by liquidation of multiple businesses, losses of sources of income by individuals (particularly, refugees), forced change of residence by millions of Ukrainians; imperfection of the country's judicial system; frequent changes in the legislation regulating banking activities; decreased levels of profitability from domestic government bonds can lead to development of new products that will be more profitable, but carry more risk; decrease of business activity of clients and potential counterparties due to COVID-19 pandemic, threat of loss of working capacity by a great number of staff due to COVID-19 pandemic. The artificial deterioration of the Bank's business reputation by the media commissioned against the background of an imperfect judicial system may limit the Bank's ability to expand its business relations.

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

The Bank has built an effective system of internal control (hereinafter - the system of internal control or SIC) and risk management of the issuer, which consists of:

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

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

- efficiency and effectiveness - is the organization of an ongoing process implemented in the current activities of the Bank and understandable at all levels of the Bank;
- early risk prevention is to ensure effective risk management;
- division of responsibilities, which is to ensure the avoidance of a situation in which one person exercises full control over the function or direction of the Bank (separation of the control function from the Bank's operations);
- comprehensiveness, covering all areas of the Bank's activities;
- timeliness, which is the establishment of the SIC, which provides an opportunity to obtain information about the threat of losses of the Bank before such losses are incurred;
- independence, which consists in the separation of the functions of evaluating the effectiveness of the SIC and the functions of its organization and implementation;
- confidentiality - preventing the disclosure of information to persons who do not have the authority to obtain it.

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

- compliance with the legislation, regulations and standards of professional activity by the Bank's employees;
- prevention of conflicts of interest;

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

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

- Supervisory Board of the Bank;
- Management Board of the Bank;
- Internal Audit Service;
- Head of Risk Management Service (Chief Risk Manager) and Risk Management Service;
- Head of the Compliance Service (Chief Compliance Manager) and the Compliance Service;
- Chief Accountant and his deputies (if any);
- Heads and employees of the Bank's divisions (Services) who exercise internal control in accordance with the powers defined by the Bank's internal documents (regulations, technological maps, regulations, job descriptions, regulations on structural / separate divisions of the Bank, decisions of collegial bodies and Bank management).

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

- Risk identification and assessment, which includes the identification and analysis of significant risks in order to identify control measures/procedures for risk management.
- Control measures/control procedures - actions necessary to minimize risks (determined by the Bank's internal documents). The Bank's control measures operate at all organizational levels, in the performance of any functions of the Supervisory Board, the Bank's Management Board, managers and employees of the Services.
- Information / reporting and communication - information on identified risks must be documented and transmitted in a timely manner:
 - To the Supervisory Board and the Management Board of the Bank for making management decisions;
 - To subdivisions/authorized employees of the Bank responsible for risk minimization and control to improve the system of internal control and control procedures, staff training, control procedures, drawing conclusions and proposals to the Bank's management to improve control.
- Monitoring, which will allow to assess the quality and effectiveness of the internal control system.

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

- control of the Bank's management (Supervisory Board and the Bank's Management Board) over compliance with the legislation of Ukraine and the Bank's internal procedures (compliance);
- distribution of responsibilities in carrying out the Bank's activities;
- control over the functioning of the risk management system;
- control over information security and information exchange;
- introduction of internal control procedures;
- monitoring the effectiveness of the SIC;
- introduction of internal audit procedures.

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

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

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

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

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

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

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

Processes of control over the functioning of the internal control system include periodic review of the results of monitoring the effectiveness of the internal control system (at least once a quarter) by the Bank's management - the Board and the Supervisory Board of the Bank (including but not limited to risk management and exchange of information, in compliance with the legislation of Ukraine and the internal procedures of the Bank/compliance).

The Bank has the following forms of control:

- **Preliminary control** - is carried out before the Bank's operations;
- **Current control** - is carried out during the Bank's operations and includes control over compliance with legislation, internal documents of the Bank on the implementation of these operations, the correctness of data in the Bank's software, the procedure for deciding on their implementation, control over complete, timely and reliable reflection of operations in accounting and reporting, control over the preservation of the Bank's assets.
- **Further control**, which is carried out after the Bank's operations and consists in checking the validity and correctness of operations, compliance of documents with the established forms and requirements for their execution, compliance of employees with their job descriptions, identification of causes and deficiencies and identification of measures. elimination, control over the implementation of planned performance indicators defined in the Bank's development strategy, its business plans and budget, verification of completeness and reliability of financial, statistical, management, tax and other reporting data generated by the Bank.
- **Internal audit control** - conducting a scheduled audit by the Internal Audit Service to independently assess and control the effectiveness of the internal control system, the implemented system of management and control of banking risks, as well as the quality of process organization, operations by process participants, etc.

The Bank has implemented a three-tier system of internal control:

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

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

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

7.10. THE QUALITY MANAGEMENT SYSTEM.

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

- status of actions based on the results of the preliminary QMS analysis;
- changes in external and internal factors for the reporting period related to QMS;
- information on the effectiveness of QMS, taking into account:
 - customer satisfaction, which is assessed monthly by compiling customer ratings on various indicators;
 - the degree of achievement of QMS goals for the reporting period;
 - effectiveness of processes and compliance of banking products, which are based on the conclusions of users on the quality and timeliness of management reporting;
 - discrepancies were identified and corrective actions were applied, which were recorded in the reports on the results of further control of the internal control system, incident database;
 - results of monitoring and measurement of QMS, which are recorded in the reports on the results of further control of the internal control system;
 - results of audits (inspections);
 - effectiveness of external service providers
- adequacy of resources to ensure the functioning and development of QMS;
- assessment of the effectiveness of controls determined by the results of non-financial risk assessment;
- results of monthly credit and liquidity risk assessments;
- results of quarterly stress testing of all types of risks;
- opportunities to improve the quality of the Bank's processes and products.

According to the results of the analysis of the Quality Management System for 2022 it is established:

- organization and functioning of QMS of JSC "BANK AVANGARD" do not require any significant changes;
- availability of QMS resources is at a sufficient level;
- areas of QMS improvement can be identified:
 - further introduction of automation of transactions and reduction of processing time of client payment orders;
 - spreading the use of electronic document management in banking products;
 - introduction of feedback mechanisms for external and internal clients of the Bank's processes;
 - introduction of additional controls over the processes in which the realized risk was recorded;
 - conducting external training to study the requirements of ISO 19011.

7.11. INTERNAL AUDIT SERVICE.

The Internal Audit Service is an independent structural subdivision of the Bank, is a component of the internal control system and is subordinated to and accountable to the Supervisory Board of the Bank. As of 01.01.2023, the division of the Internal Audit Service has 2 employees, including the Head of the Internal Audit Service.

In 2022, the Internal Audit Service carried out the following work:

- Conducting inspections in accordance with the approved Audit Plan for 2022;
- Support of external audit to confirm the annual financial statements in accordance with international standards (AC CROWE UKRAINE, LLC);
- Preparation of quarterly reports to the Management Board and the Supervisory Board;
- Incident database monitoring;
- Other current work.

In 2022, the Internal Audit Service conducted thematic inspections in accordance with the annual plan approved by the Supervisory Board. All scheduled inspections have been performed.

According to the results of audits in 2022, no recommendations were provided.

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

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

7.12. EXTERNAL AUDITOR OF THE BANK.

The decision of the Supervisory Board of the Bank (Decision №9 dated September 30, 2022) selected an external auditor, an audit firm – AC «CROWE UKRAINE» LLC to provide services to confirm the financial statements of the Bank for 2022. Regarding the activities of AC «CROWE UKRAINE» LLC:

- total experience of auditing activities - more than 15 years;
- number of years during which AC «CROWE UKRAINE» LLC provides audit services to the Bank – 3rd year;
- there were no cases of conflict of interest and / or combination of internal auditor functions during the period of cooperation with the Bank.
- there were no penalties applied to AC «CROWE UKRAINE» LLC by the Audit Chamber of Ukraine during the year and the facts of submission of inaccurate reports of the financial institution, confirmed by the audit opinion, revealed by the bodies that carry out state regulation of financial services markets;
- there were no recommendations of the bodies that carry out state regulation of financial services markets regarding the audit opinion.

AC «CROWE UKRAINE» LLC did not provide other audit services to the Bank during the year.

7.13. SIGNIFICANT TRANSACTIONS.

By the decision of the shareholder dated 12.01.2022 the Bank is allowed to perform from 01.01.2022 to 31.12.2022 (inclusive) significant transactions each in the amount of up to UAH 500,00 million (inclusive), concerning: conducting purchase / sale transactions and repo of domestic bonds state loan of Ukraine and / or certificates of deposit of the National Bank of Ukraine; conducting operations of purchase / sale of foreign currency; raising funds on the interbank market; raising funds from clients, as well as carrying out credit operations that are fully secured by cash coverage and / or pledge of property rights to deposit in the Bank. When conducting active operations, the Bank is obliged to comply with the debt limit of one counterparty (mandatory economic standard H7, set by the National Bank of Ukraine) both during external settlements and during the term of this operation, except for transactions under agreements that provide for advance payments in favour of the Bank. These restrictions do not apply to operations on the transfer of funds between the Bank's own correspondent accounts (NOSTRO accounts) in correspondent banks, the amount (limits) of balances for which is determined by a separate decision to determine the limit of the balance on the correspondent account. Decision was not related to transactions with National bank of Ukraine.

The Bank is allowed to perform significant transactions with the National Bank of Ukraine in the amount of up to UAH 7 000,00 million (inclusive), concerning: conducting active operations with the National Bank of Ukraine related to credit risk, including, but not limited to, operations of purchase / sale of certificates of deposit of the National Bank of Ukraine, as well as operations to obtain refinancing loans from the National Bank of Ukraine (including overnight) in accordance with the General Loan Agreement with the National Bank of Ukraine and swap interest rate operations in accordance with Of the General Agreement on interest rate swap operations with the National Bank of Ukraine, concluded in accordance with the decisions of the Shareholder, which remain in force and continue to operate.

By the decision of Shareholder dated November 8, 2022, the allowed limit of Bank's significant transactions with National bank of Ukraine is 10,000 million (inclusive) for each transaction, as for conducting the operations of purchase and sale of deposit certificates by National bank of Ukraine and receiving refinancing loans from National bank of Ukraine (including overnight) according to the general loan agreement with National bank of Ukraine and interest rate swap operations according to the general agreement about interest rate swap operations with National bank of Ukraine, that are signed according to decisions of Shareholder, that continue to remain valid.

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

During 2022, the Bank carried out operations with related parties on general terms. Related party transactions are primarily resource-based.

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

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

Information on related party transactions, balances on related party transactions for 2022, income and expenses on related party transactions for 2022, total amount of loans granted to related parties and repaid by related parties during 2022, as well as other rights and

obligations under related party transactions as at the end of the reporting period for 2022 are set out in the Annual Financial Statements of the Bank for 2022.

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

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

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

Each message must be checked and answered.

The appeal may be submitted in writing or orally.

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

- full name;
- place of residence of the applicant;
- the essence of the raised question;
- remarks, suggestions, statements or complaints, requests or demands.

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

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

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

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

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

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

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

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

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

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

- Full name;

-
- Contact details: registration / residence address of the applicant, postal address for correspondence, e-mail address, telephone number, etc.
 - Oral description of the problem situation that caused the appeal.

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

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

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

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

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

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

Link to the section "Appeals of citizens" of the official Internet representation of the National Bank: <https://bank.gov.ua/ua/consumer-protection/citizens-appeals>

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

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

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

During 2022, the Bank did not receive any complaints regarding the provision of financial services.

During 2022, there were no lawsuits against the Bank for the provision of financial services.

8. CONCLUSION.

During the reporting year 2022, the Bank operated in accordance with the requirements of the Bank's Corporate Governance Code, current legislation of Ukraine, internal documents of the Bank, conducted profitable activities, followed the strategy set by the Bank's shareholders.

Chairperson of the Management Board

S. Korchynska

**Statement of Financial Position
as at 31 December 2022***(in UAH thousand)*

	Note	2022	2021
Assets			
Cash and cash equivalents	6	564 280	168 623
Loans and due from banks	7	-	108 137
Loans and due from customers	8	39 137	69 977
Investments in securities	9	8 777 794	1 962 017
Derivative finance assets	10	-	210
Current income tax receivables		-	2 856
Deferred tax assets	28	4 252	-
Fixed and intangible assets	11	5 490	2 440
Right-of-use assets	11	-	78
Other financial assets	12	-	1 533
Other assets	13	16 665	7 800
Total assets		9 407 618	2 323 671
Liabilities			
Due to banks	14	-	1 189 996
Due to customers	15	9 099 112	820 386
Debt securities issued by the bank	16	7 170	26 226
Other raised funds	17	39 050	31 001
Derivative finance liabilities	18	1 190	3 887
Current income tax liabilities		2 175	-
Deferred tax liabilities	28	258	399
Other financial liabilities	20	1	1
Other liabilities	21	15 897	11 940
Provisions for liabilities	19	109	87
Total liabilities		9 164 962	2 083 923
Equity			
Share capital	22	200 080	200 080
Retained earnings (uncovered loss)		32 949	29 916
Reserves and other funds		11 647	11 125
Revaluation reserves	23	(2 020)	(1 373)
Total equity		242 656	239 748
Total liabilities		9 407 618	2 323 671

Authorized for issue and signed on February 24, 2023.

Chairperson of the Board _____ /S. Korchynska /

Chief Accountant _____ /N. Derkachenko/

Statement of profit or loss and other comprehensive income for 2022

(in UAH thousand)

	Note	2022	2021
Interest income	25	800 014	188 354
Interest expenses	25	(139 432)	(113 822)
Net interest income/(Net interest expense)		660 582	74 532
Fee and commission income	26	6 321	13 801
Fee and commission expenses	26	(1 298)	(1 708)
Net profit / (loss) from transactions with financial instruments, that are recognized at fair value through profit or loss		(4 686)	(3 253)
Net profit / (loss) from transactions with debt financial instruments that are carried at fair value through other comprehensive income		(10 210)	2 908
Net profit / (loss) from foreign currency transactions		5 195	13 164
Net profit / (loss) from foreign currency revaluation		66 352	(920)
Net profit / (loss) from impairment of financial assets		(59 329)	(38 246)
Net loss / (profit) from increase / (decrease) in provisions for liabilities	19	(22)	(17)
Other operating income		148	4
Salaries and wages	27	(40 766)	(32 756)
Depreciation and amortization	27	(1 356)	(1 834)
Other administrative and operating expenses	27	(616 595)	(12 925)
Profit/(Loss) before tax		4 336	12 750
Income tax expenses	28	(781)	(2 295)
Net profit for the year		3 555	10 455
OTHER COMPREHENSIVE INCOME:			
net change in fair value			
net change in fair value to be reclassified in profit or loss		(789)	(1 562)
Income tax related to other comprehensive income	28	142	281
Other comprehensive income after tax		(647)	(1 281)
Total comprehensive income for the year		2 908	9 174
Net profit/(loss) per an ordinary share	29		
basic		29,15	85,70
diluted		29,15	85,70

Authorized for issue and signed on February 24, 2023.

Chairperson of the Board _____ /S. Korchynska /

Chief Accountant _____ /N. Derkachenko/

**Statement of cash flows
for 2022
(direct method)**

(in UAH thousand)

	2022	2021
Cash flows from operating activities		
Interest received	849 668	205 491
Interest paid	(136 723)	(111 697)
Commissions received	7 536	12 747
Commissions paid	(1 409)	(1 669)
The result of transactions with financial derivatives	(17 383)	1 305
The result of foreign exchange transactions	5 195	13 164
Other operating income	148	5
Staff costs paid	(36 936)	(31 354)
Administrative and other operating expenses paid	(625 280)	(18 406)
Income tax paid	-	-
Cash received / paid from operating activities before changes in operating assets and liabilities	44 816	69 586
<i>Changes in operating assets and liabilities</i>		
Net (increase)/decrease in loans and due from banks	134 092	(129 851)
Net (increase)/decrease in loans and due from customers	14 747	(17 369)
Net (increase)/decrease in other financial assets	629	215
Net (increase)/decrease in other assets	2	-
Net increase/(decrease) in due to banks	(1 190 000)	330 000
Net increase/(decrease) in due to customers	8 292 820	31 002
Net increase/(decrease) in debt securities issued by the bank	(19 000)	26 000
Net increase / (decrease) in other financial liabilities	(16 783)	(2 034)
Net cash flows from/(used in) operating activities	7 261 323	307 549
Purchase of securities at FVTOCI	(5 320 210)	(17 680 778)
Proceeds on disposal of securities at FVTOCI	6 814 221	17 416 990
Purchase of securities at amortized cost	(783 751 000)	(43 212 250)
Proceeds on redemption of securities at amortized cost	775 426 250	43 152 000
Acquisition of fixed assets	(3 193)	(471)
Acquisition of intangible assets	(727)	(971)
Net cash flows from/(used in) investing activities	(6 834 659)	(325 480)
Other payments to shareholders, except dividends	-	-
Dividends paid	-	(13 665)
Net cash received / (used) from financing activities	-	(13 665)
Effect of changes in official foreign exchange rate of the National Bank of Ukraine on cash and cash equivalents	41 840	(12 248)
Net increase / (decrease) in cash and cash equivalent	468 504	(43 844)
Cash and cash equivalents, at the beginning of the year	206 984	250 828
Cash and cash equivalents, at the end of the year	675 488	206 984

Authorized for issue and signed on February 24, 2023.

Chairperson of the Board _____ /S. Korchynska /

Chief Accountant _____ /N. Derkachenko/

**Statement of Changed in Equity
for 2022***(in UAH thousand)*

	Share capital	Reserve fund	Revaluation reserve	Retained earnings	Total
Balance as at 31 December 2020	200 080	10 612	(92)	33 638	244 238
Distribution of previous year's profit	-	513	-	(513)	-
Dividend payment	-	-	-	(13 664)	(13 664)
Total comprehensive income	-	-	(1 281)	10 455	9 174
Balance as at 31 December 2021	200 080	11 125	(1 373)	29 916	239 748
Distribution of previous year's profit	-	522	-	(522)	-
Total comprehensive income	-	-	(647)	3 555	2 908
Balance as at 31 December 2022	200 080	11 647	(2 020)	32 949	242 656

Authorized for issue and signed on February 24, 2023.

Chairperson of the Board _____ /S. Korchynska /

Chief Accountant _____ /N. Derkachenko/

Note 1. General information about the bank's activities

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 2022

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

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

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

In 2014 WESTAL HOLDINGS LTD. (location: Evagora Papachristoforou, 18, PETOUSSIS BUILDING, office 101B, 3030, Limassol, Republic of Cyprus) became the Shareholder of the Bank with a substantial holding in it. As at the reporting date, WESTAL HOLDINGS LTD. Directly holds 100,00% of the Bank's share capital.

The indirect owners of substantial interest in the Bank are:

- ICU HOLDINGS LIMITED (location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands), which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD; and
- NAREMIUS HOLDINGS LTD (location: Tortola Pier Park, building 1, 2nd floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands) indirectly owing 50% of shares in the Bank through 50% participation in the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD; and
- FILTESA HOLDINGS LTD (location: Tortola Pier Park, building 1, 2nd floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands) indirectly owing 50% of shares in the Bank through 50% participation in the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD

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

- individual Kostyantyn Stetsenko indirectly owing 50% of shares in the Bank through 100% stockholding of NAREMIUS HOLDINGS LTD, through a legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD; and
- individual Makar Paseniuk indirectly owing 50% of shares in the Bank through 100% stockholding of FILTESA HOLDINGS LTD, through a legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD.

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

Note 1. General information on the bank's activities (continued)

Independent rating agency "Credit-Rating" on February 16, 2023 confirmed the credit rating of JSC "BANK AVANGARD" at the level of uaAAA, the forecast is "stable". The rating report can be found at the link:: <https://avgd.ua/wp-content/uploads/AVNG-001-020short.pdf>

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

In 2022, the Bank confirmed the compliance of its procedures with the requirements of international standards for the quality management system ISO9001:2015 and the information security management system ISO/IEC27001:2013.

The Bank plans to comply with these international standards. The Bank implements a business continuity management system in accordance with the international standard ISO 22301.

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

As of the end of the reporting period, the Bank's customer base is formed by legal entities-entities (146 clients), non-bank financial institutions (39 clients), individual clients (194 clients) and individual entrepreneurs (6 clients). The bank serves 1009 accounts and 385 clients.

Bank strategy

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

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

In 2023, due to changes in the market situation, the Bank plans to hold the government bonds portfolio in the amount of ~350 million UAH. The Bank plans to raise funds counterparties under the best market conditions to invest in IGLBs. The remaining assets will consist of due from other bank and short-term loans granted to reliable borrowers. At the same time, 85% of the Bank's assets are placed for up to 30 days, and at least 85% of the assets are highly liquid, as they consist c interbank loans, domestic government bonds and cash on correspondent accounts with the most reliable Ukrainian and foreign banks. At least 90% of the due to customers are legal entities- funds. Such assets' structure will be maintained until other decisions made regarding the introduction of new products in the coming years.

Note 1. General information on the bank's activities (continued)

To attract customers and promote the Bank's services, it is planned to improve all sales channels, including mechanisms to attract new customers to the Bank, introduce mobile banking and optimize operational procedures that must meet the requirements of time for speed and ease of transactions and reliability of payments.

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

Types of banking activities

The Bank performs carries out operations in the cash and exchange markets in accordance with the received Banking License (The Bank was included in the Government registry of Banks on July 5 2013, No. 346 Extract from the Government registry of banks dated 16.08.2021 № GRB-000069).

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 (serial number AE № 286807), dated 22.01.2014 with no expiration date, which, according to the Resolution of The National Commission on Securities and Stock Market dated 23.06.2021 № 420 reissued for conducting professional activities in the capital market such as trading the financial instruments, which implies dealer activities.

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

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

In 2022, the National Bank of Ukraine has applied to the Bank no restrictions to limit activities performed by the Bank according to permits and licenses granted; there has been also no restrictions regarding the ownership of assets.

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

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

Note 1. General information on the bank's activities (continued)**Bank performance indicators in 2022**

The Bank's assets as of December 31, 2022 amounted to UAH 9 407 618 thousand. (as of the end of the day on December 31, 2021 - UAH 2 323 671 thousand).

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

The Bank's liabilities as at 31 December 2022 amounted to UAH 9 164 962 thousand (December 31, 2021: UAH 2 083 923 thousand). The resource base is formed by customer funds, including short-term funds of legal entities and individuals. The portfolio of client funds as of December 31, 2022 amounted to UAH 9 098 712 thousand. (December 31, 2021: UAH 820 386 thousand)

In 2021, JSC «BANK AVANGARD» issued and placed Series A bonds in the amount of 100 000 (one hundred thousand) bonds maturing on April 8, 2026 and Series B bonds in the amount of UAH 100 000 (one hundred thousand) bonds maturing on April 7, 2027. During 2021. The Bank repurchased Series A own debt bonds in the amount of 77 500 (seventy-seven thousand five hundred) maturing on April 8, 2026 and Series B bonds in the amount of 97 500 (ninety-seven thousand five hundred) maturing on April 7, 2027. In the I quarter of 2022, the Bank repurchased Series A own debt bonds in the amount of 18 000 (eighteen thousand) bonds maturing April 8, 2026.

As of December 31, 2022, the total volume of placed bonds amounted to UAH 7 million.

As at 31 December 2022, the Bank's equity amounted to UAH 242 657 thousand. (December 31 2021: UAH 239 748 thousand) The main component of equity is the Bank's share capital

As at 31 December 2022, the Bank's share capital amounted to UAH 200 080 thousand (December 31 2021: UAH 200 080 thousand).

As at 31 December 2022, the Bank's regulatory capital amounted to UAH 241 683 thousand., including tier I capital in the amount of UAH 209 965 thousand and tier II capital in the amount of UAH 32 719 thousand and regulatory adjustments - UAH 1 001 thousand.

During the reporting period, the Bank complied with the economic standards of the National Bank of Ukraine, which as at December 31, 2022 had the following meanings:

	Normative value	As at 31 December 2022	As at 31 December 2021
Regulatory capital ratio (N1)	UAH 200 000 thousand	UAH 241 683 thousand.	UAH 238 397 thousand.
Regulatory capital adequacy ratio (N2)	Not less than 10%	52,48%	37,36%
LCRBB	100%	109,7927%	472,1178%
LCRIB	100%	594,6036%	342,1157%

Note 1. General information on the bank's activities (continued)

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

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

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

According to the results of 2022, the Banks activity is profitable and the net profit is UAH 3 555 thousand.

Bank Management

The supreme governing body of the Bank is the General meeting of the shareholders. The Supervisory board is a collegial body of the Bank that ensures control over the activity of Management of the Bank, protection of rights of investors, other creditors and shareholders of the Bank according to the charter of the Bank, terms on Supervisory board of the Bank and the current law of Ukraine. The Supervisory board doesn't take part in the current management of the Bank.

According to the current legislation the exclusive competence of the Supervisory Board includes:

- 1) approving of the regulations on the Board of the Bank, regulations on Internal audit service, risk-management service, Compliance Service, on corporate secretary (in case they are assigned), on constant and temporary committee of the supervisory board (in case they are assigned), other internal regulations, which regulate the activities of sections of a bank, and other internal documents, approval of which is regulated by current Law falls within the competence of the supervisory board; approving of the regulations regarding the Banks activity, except those, included to the exclusive competence of the General Meeting of Shareholders, and those, that are, given to the Board by the committee of the supervisory board.
- 2) decision-making on holding the General Meeting of the Shareholders, approving the agenda of the General Meeting, deciding on the date of meetings and inclusion of proposals to the agenda, except for conducting the unscheduled General meetings by the shareholders; decision-making on holding the scheduled or unscheduled General meetings according to the Charter and in cases, stipulated by law of Ukraine on JSCs;
- 3) approving of emission of securities, other than shares; approving the repurchasing of securities, other then shares, issued by the Bank.
- 4) control over the activities of the Board, making the recommendations on its improvement; review of the Report of the Board and approval of actions on it's results, decision-making on the consequences of review of the Report of the board;
- 5) approving of the market value of property in cases stipulated by law
- 6) electing and terminating of powers or the Chairperson and members of the Board of Directors, monitoring the activities of the Board decision-making on removal of the Chairperson of the Board from his/her powers and electing a" person temporarily exercising the powers of the Chairperson of the Board

- 7) appointment and dismissal of the head of the internal audit service, Chief risk manager, Chief compliance manager;
- 8) determination of the order of work process and plans of Internal audit service;
- 9) approval of terms of the employment contracts, which are developed with members of the Board, head of the company and employees, Internal Audit service of the Bank, Head of risk-management department, Head compliance manager, setting the wage;
- 10) determination of the external auditor for conducting external audit of the Bank, including the annual audit of financial statement and approval of the terms of the contract with auditing firm; determining the fee for the service; consideration of the external auditors report of the Bank and preparation of recommendations for the General Meeting for deciding on the external auditors report.
- 11) determination of the date of compilation of the list of persons, which have a right to receive dividends, dividend payment procedures and maturities within the marginal timeline, determined in the Charter and current law of Ukraine;
- 12) decision-making on granting consent on the making of significant transactions and on making interested party transactions in cases, stipulated by law of Ukraine.
- 13) determination of probability of default as a conclusion of taking on obligations or complying to fulfill the obligation, including the payment of dividends and purchasing shares;
- 14) decision-making on appointment (change) of depositary institution, which provides the Bank with additional services, approval of terms of contract, concluded with it, determination of payment for their services;
- 15) decision-making on creation, reorganization and elimination of legal entities, creation of branches and representative offices of the Bank in other States, approval of their Charters regulations, including participation of the banks in legal entities, where Banks share is no less than 10 percent of their share capita; determination of the matters of participation of the Bank in industrial alliances and other associations or groups;
- 16) election of the Corporate secretary and approval of statement on Corporate secretary;
- 17) creation of temporary and constant committees of the Board, determination of their personnel, competence and other issues of functioning, consideration of reports of temporary and constant committees of the Board;
- 18) determination of procedure of conducting revisions and control over financial and economic activities of the Bank;
- 19) decision-making, attributed to competence of the Board by current Law, in case of merger, consolidation, disintegration, separation or transformation of the Bank;

Note 1. General information on the bank's activities (continued)

- 20) determination of organizational structure of the Bank, including structure of Risk-management System, Compliance System, Internal Audit service of the Bank;
- 21) determination and control over the realization of Bank strategy, business-plan, plans on restoring activity of the Bank, financing of the Bank in crisis situations, ensuring going concern of the Bank;
- 22) determination and control over the compliance of strategies and policies of risk-management, risk appetite statement, list of limits regarding risks of the Bank; ensuring the functioning and control of effectiveness of complex and adequate system of Banks internal control, including systems of risk-management, internal audit; control of the effectiveness of risk-management;
- 23) determination of sources of capitalization and other financing of the Bank; determination of credit policy of the Bank;
- 24) determination and control over the approval of the procedure for carrying out the related party transactions to the Bank, which should include requirements regarding the detection and control over operations with related party transactions;
- 25) determination of Banks remuneration policy in accordance with the requirements established by the National Bank of Ukraine, including ensuring control over its realization; approval of report on remuneration of board members;
- 26) implementation of annual assessment of effectiveness of Supervisory Board of the bank overall and it's every member, including committees of Supervisory Board of the Bank, assessment of compliance of collective sustainability of Supervisory Board of the Bank, size of the bank, complexity, volume, types, character of Banks operations, organizational structure and profile of Banks risk, taking into account specifics of Banks operations and activities of bank group, to which the Bank is included, and taking action on improving the mechanisms of activities of Banks Board on result of the assessment;
- 27)) implementation of annual assessment of effectiveness of the Board of the bank overall and it's every member including, Risk-management system, Compliance system, Internal Audit system, assessment of adequacy of Banks Board members, Head of risk-management, Head Compliance manager, Head of Internal Audit system qualification requirements, assessment of adequacy of collective suitability. Conformity of Bank's board size, complexity, volume, types, character of Banks operations, organizational structure and profile of Banks risk, taking into account specifics of Banks operations and activities of bank group, to which the Bank is included, and taking action on improving the mechanisms of activities of the Compliance system, Internal Audit system on result of the assessment;
- 28) ensuring control over the activities of the Risk-management system, Compliance system, Internal audit system of the Bank, and making recommendations about it's improvement;
- 29) implementation of other authorities, within the competence of Supervisory Board in accordance to the law of Ukraine on JSCs, current law of Ukraine, and Charter of the Bank.

The executive body of the Bank is the Management Board, which manages the current activities of the Bank, resolves issues in its competence, determined by the Charter of the Bank, Regulation on the Management Board of the Bank and is responsible for the effectiveness of activity of the Bank according to the current legislation and Charter of the Bank.

Note 1. General information on the bank's activities (continued)

The executive body of the Bank is the Management Board, which manages the current activities of the Bank, except for those, in exclusive competence of General Meeting of shareholders. General Meeting and Supervisory Board can make a decision regarding transfer of authority to the competence of the Board except for authority, referred to by applicable law of Ukraine and Bank's Charter to exclusive competence of each of the organs of management of the Bank.

The Management board is accountable to Supervisory Board of the Bank. 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.

The number of employees of the bank at the end of 2022 is 28 people.

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.

Note 1. General information on the bank's activities (continued)

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

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Market risk;
- Foreign currency risk;
- Operational risks;
- Compliance risk;
- Reputation risk;
- Strategic risk.

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

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

Substantial accounting judgments, assessment and assumptions

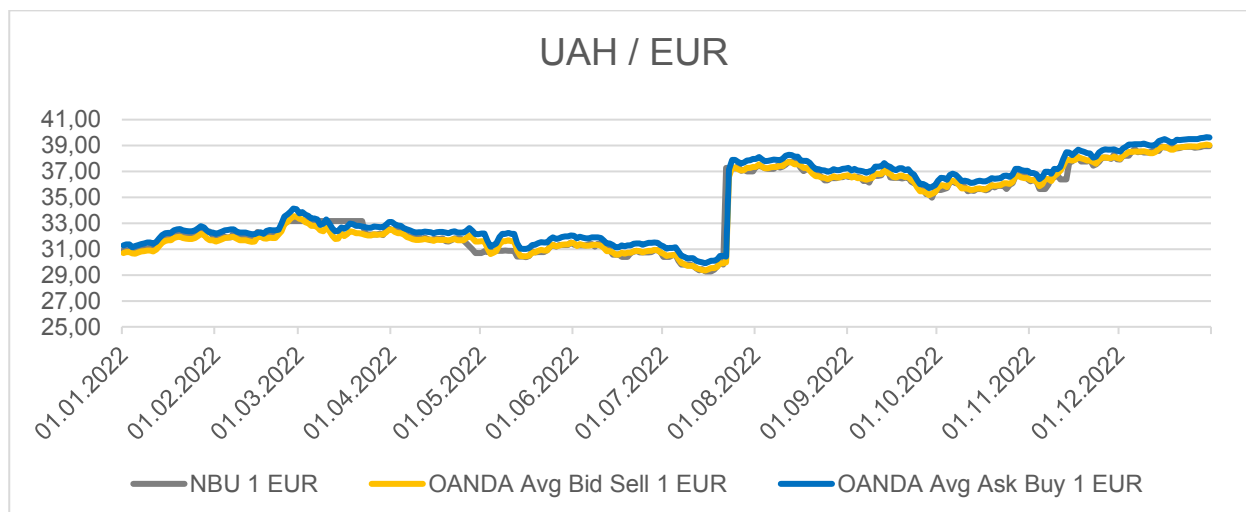
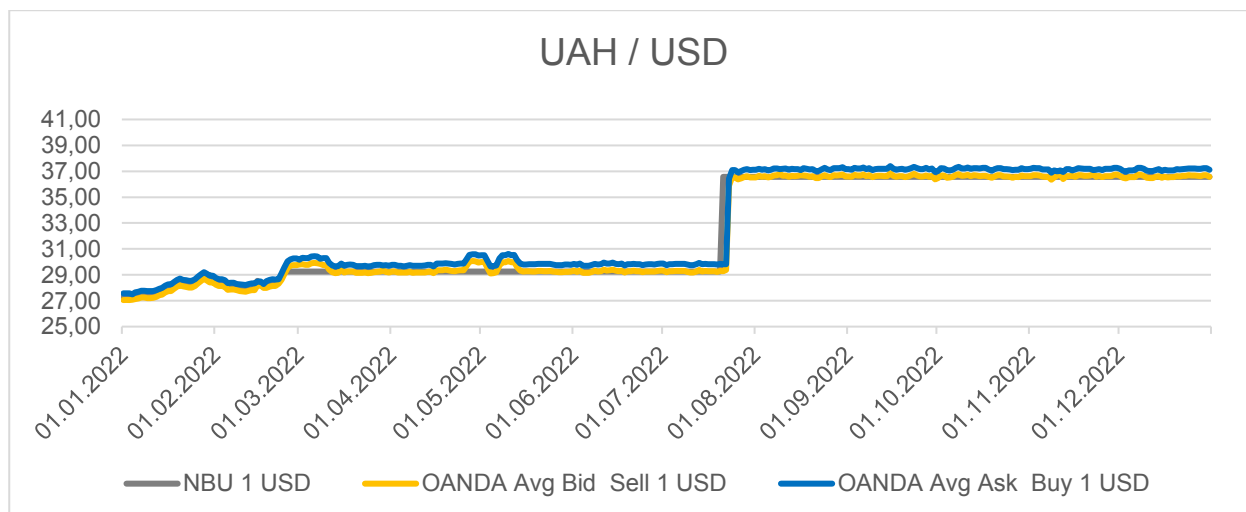
Preparation of financial statements in accordance with IFRS requires management to form certain judgments, assessments, and assumptions, which affect the amounts of income, expenses, assets and liabilities in the statements, as well as those that affect the disclosure of information about these articles and on contingent liabilities. The uncertainty of these assumptions and estimated values can lead to results that may be significantly adjusted in the future relative to the book value of assets and liabilities, for which similar assumptions and estimates were made. In the process of applying the Bank's accounting policy, the management made the following judgments and assumptions about the future and other major sources of uncertainty of the estimate at the reporting date, which carry a significant risk that a significant adjustment in the book value of assets and liabilities will be required in the next financial year.

Existing circumstances and assumptions about future developments may change as a result of events not controlled by the Bank, which are reflected which are reflected in assumptions in case of their occurrence. Positions that have the most significant impact on the amounts reflected in the consolidated financial statements and for which management has used significant judgments and/or assessments considered below, taking into account accepted judgments/assessments.

Note 1. General information on the bank's activities (continued)**Spot exchange rate**

When converting foreign currency, the Bank uses the official exchange rates of UAH to other currencies set by the NBU as a spot rate. In regards to instability of Ukrainian financial system caused by war actions and limited conversion of UAH opens a possibility for simultaneous existence of different rates of currency to other currencies on different financial markets.

Management estimated correspondence of rates with the current rate, set by NBU, to (24-hour period) to rates of buying and selling on OANDA, one of the largest foreign exchange aggregators.



The changes in rates, set by NBU, and rate, set by OANDA, are less than 2% as on reporting date and the average for the reporting period. Therefore, the course, set by NBU, can be used as a spot exchange rate for preparation of financial statement.

More information about the influence made by change of exchange rates is available in Note 31 «Financial risk management».

Note 2. Economic environment in which the Bank operates

On February 24, 2022, a full-scale invasion of the territory of Ukraine by the troops of the Russian Federation began. In connection with the military aggression of the Russian Federation against Ukraine, based on the proposal of the National Security and Defense Council of Ukraine, the President of Ukraine in accordance with the Decree of the President of Ukraine of February 24, 2022 № 64/2022 imposed martial law in Ukraine for 30 days. the same day was approved by the Verkhovna Rada of Ukraine.

The National Bank promptly made decisions and imposed temporary restrictions on the operation of the foreign exchange market of Ukraine, fixing exchange rates, restrictions on cash withdrawals and a moratorium on cross-border payments, etc. in connection with the declaration of martial law throughout Ukraine. Appropriate actions are necessary to ensure the reliable and stable functioning of the country's financial system and maximize the activities of the Armed Forces of Ukraine, as well as the smooth operation of critical infrastructure.

At its extraordinary meeting on February 24, 2022, the National Securities and Stock Market Commission (NSSMC) decided to temporarily suspend operations with all securities, as well as to conduct operations in the depository accounting system and clearing accounting systems, and to temporarily suspend operations with assets of CII and NPF.

The currency and stock markets are now operating under significant restrictions that were introduced under martial law. Authorized institutions are actually prohibited from trading in currency values, except in a number of cases. Most transactions on the interbank market take place with the participation of the National Bank – both for the purchase and sale of foreign currency. Since the beginning of the war, the hryvnia exchange rate has been fixed at the level of 29,2549 UAH/USD on February 24, 2022. And on July 21, 2022 the National bank fixed the exchange rate of hryvnia to dollar at the level of 36,5686 UAH/USD, which is 25% higher than the previous exchange rate. What the exchange rate will be after the end of the war will depend on many parameters, so it is impossible to predict the exchange rate now. It is expected that after the situation normalizes, the full operation of the foreign exchange market will be restored as soon as possible, and currency restrictions imposed during the war period will be lifted. As soon as the market monetary instruments start working, the NBU will be able to return to smoothing exchange rate fluctuations and stabilizing the market situation in case of imbalances. For this purpose, the NBU has a sufficient reserve of international reserves at the reporting date.

The impact of the war on the banking sector is manifested through such components as:

- interruptions in the operation of bank branches and ATMs, significant damage or destruction of banking infrastructure in war zones;
- reduced liquidity due to the outflow of client funds, which is partially offset by NBU support through refinancing instruments;
- reduction of the loan portfolio due to the actual termination of new lending by banks (except for lending by state-owned banks to sectors and enterprises that are critically important under martial law);
- a sharp (at least 50%) decrease in banks' operating income (due to reduced demand for services from customers, introduced credit holidays, restrictions on currency transactions, etc.), which may result in their operating unprofitability in the medium term;

Note 2. Economic environment in which the Bank operates (continued)

- inability of some borrowers to service loans, deterioration of payment discipline due to the termination of many enterprises, loss of sources of income by individuals (in particular, refugees), forced change of place of residence of millions of Ukrainian citizens;
- decrease in the amount of capital of banks due to shortfall in income, material losses and loss of part of the loan portfolio.

Per data of experts from National Bank of Ukraine, Global inflation stayed significant under the influence of high prices on energy sources, which, regarding the low demand slowed down the World economy. As a result, main central banks continue to strengthen the monetary policy, however individual emerging markets are ending this cycle.

In the second half-year the economy of Ukraine slowly started to regrow after significant damage done as a consequence of full-scale war, but damage done to energetical infrastructure put an end to this trend. In 2022 the GDP dropped approximately a third, and in 2023 will slow down more, than was expected before the mass shelling begun. This will slow down the demand for financial services and will lead to additional credit losses for banks.

International support of Ukraine only grows, becoming systematical and more regular. In 2022, with the help of partners there were additions to the state budget that amounted to more than half of budgets needs and this situation will stay the same for another year. External grants and credits also supported the balance of payments and international reserves, thanks to which National Bank of Ukraine continues to actively regulate the financial market. In the second half-year pressure on the exchange market due to summer adjustments of exchange rates and chain of currency restrictions. Significant governmental spending on payments to soldiers and victims of war, supporting publics income and compensating its lack in the private sector.

The liquidity of banking system overall stayed high throughout the war, and some indicators beat the records. Apart from maintaining depositors trust, it's influenced by regular and significant governmental payments to the bank accounts of the population. However, the flow of new funds in the sector is uneven. The funds mainly stay on the current accounts of government banks. Throughout the second half-year the amount of term deposits has dropped so the funding has slowed down. This doesn't imply immediate risks to the banking system, but it weakens the stability of individual banks in regards to the moods of depositors. So financial institutions should work towards the betterment of term structure of funding and raising populations' funds, in particular through increasing the deposit rates. Raising the deposit rates in UAH is also driven by the high discount rates. Apart from that, the National Bank of Ukraine will increase reserve requirements for current accounts to give banks more stimulus to extend the obligations. Weakening of currency restrictions in July gave the opportunity to buy foreign currencies to the population to place on term deposits. After that, term deposits in foreign currencies started to rise for the first time since COVID-19 crisis. All of populations funds are kept in high-quality liquid assets

Note 2. Economic environment in which the Bank operates (continued)

The continuity of payments and work of chain of branches also had an impact on saving the trust for banks. Despite the war and mas shelling, the payments for the population and businesses are made without the delays. The amount of payments is rising.

Banks have already developed and started implementing the activities for resisting the consequences from blackouts. The list of branches that will be working even in cases of continued absence of power supply and cellular coverage. Improving their stability to operational risks banks carry significant expenses, including expenses on additional equipment for the branches. However, the largest component of losses from operational risk events is lost revenue.

In the second half-year net UAH corporate credit portfolio of the banks started to decrease. For the retail portfolio the tendency is more noticeable and goes on from the start of the war. The main reason for decrease is formation of credit reserves and repayment of previous loans that are not compensated by new payments. Slowdown in the economic activities is caused by security risks and absence of power supply that decrease the demand for loans. In times of war government programs is the main part of the support of loans.

Credit risk is still the biggest threat to financial sector. Banks have suffered sufficient losses. From the start of the war the payments to reserves are approximately 11% from the working credit portfolio that bank had at the end of February. At the highest risk are retail loans that are overdue and loans that suffered significant losses of operational assets and losses of market share. Factual and potential losses on credit portfolio are comparable to July's estimation of National bank of Ukraine, amounting to 20%. At the same time, absence of power supply will decrease the markers of activities of even active businesses, that has paid out the loans on time. Employees revenue and operating cash flows of business will oftentimes be insufficient enough to fully pay out the loans. So now there are reasons to increase the estimate of losses on credit portfolio. If the scale of the problem with electricity persists the estimate could rise to 30%.

Banking sector stays operationally profitable. It provides the first line of defense for financial institutions against the credit losses. Interest incomes have risen significantly due to increases in assets which generate interest income as well as increased rates on investment instruments. At the same time, increases in share of cash restricted the costs of funding. After the rapid decrease in spring, commission income has risen due to stable demand for banking services and gradual renewal of rates. In September the profits returned to the pre-war level. Throughout the year most of the banks managed to optimize administrative expenses. So despite the significant credit losses, the sector overall stayed profitable and cost effectiveness of capital for 11 months was over 9%.

Most of the banks still have reserves of capital more than minimal requirements. However, it is probable that the excess buffer will decrease. Some financial institutions are already violating the minimal requirements of reserve capital. National bank doesn't use any measures of influence for the violation of regulatory requirements for reserve capital if they are caused as a consequence of war.

The regimen of regulatory easing will go on for a long time. So financial institutions that have viable business models and capable of producing operational income will have enough time to renew the capital in case of need. On the other hand, the banks that are operationally

Note 2. Economic environment in which the Bank operates (continued)

not profitable will continue to be monitored by the regulator. The measures can be taken to meet the interest of the depositors

The National bank of Ukraine confirmed that throughout the 2023 they plan to assess the stability of banks to confirm the correctness of display of quality of loan portfolio, sufficiency of the reserves and assessment of the real size of regulatory capital. On the result of the assessment the minimum regulatory transition period for capital recovery will be determined. Most of the banks will be able to restore their capital with the help of future profits, but some of the banks may need help from the shareholders.

In the next years, in process of solving the current problems, caused by the war, the National bank will focus on long-term priorities of stabilization of rules of activities of the financial sector with European laws.

Note 3. Basis of preparation

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

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

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

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

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

- full coverage - all banking transactions are to be registered on accounts without any exceptions. The financial statements must contain all information about actual and potential effects of the Bank's operations that may affect the decisions made according to it;
- autonomy - all asset and liability accounts of are measured separately and disclosed in detail;
- continuity - the Bank's assets are valued on the assumption that the Bank is a going concern and remains active in the boundless future. If the Bank plans to scale down its activities, such intention shall be recorded in the financial statements;
- consistency - the Bank's permanent (year on year) application of accounting policies selected. Changes in the accounting method are possible only in cases stipulated by international standards and national regulations of accounting and require additional justification and disclosures in the financial statements.
- Continuity - Assets and liabilities are assessed based on the assumption that the Bank is continuously operating and will remain operational for the foreseeable future. If the Bank plans to downsize, it should be reflected in the financial statements
- substance over form - is an accounting concept which requires transactions to be accounted for according to their substance and not merely their legal form.

Note 3. Basis of preparation (continued)

- accrual and correspondence of income and expenses - in order to determine the reporting period results, the income for the reporting period shall be reconciled with
- the expenses incurred to obtain such income. Income and expenses are disclosed in the accounting records and financial statements when incurred regardless of the date of receipt or payment of cash assets;
- Single Monetary Measurement - Measurements and summaries of all the Bank's operations in its financial statements are carried out in a single monetary unit.

There are no plans regarding termination of the Bank's activities. These financial statements have been prepared on the assumption of the Bank's ability to continue as a going concern.

Note 4. Summary of significant accounting policies**Note 4.1. Base of assessment preparation of financial statement**

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

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

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

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

Note 4. Summary of significant accounting policies (continued)

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 4.2. 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. Assets are initially recognized by the Bank in case if bank controls them, bears the risk, expects to gain profit from their use and their cost can be adequately assessed. Liabilities are initially recognized by the bank when they are agreed on by a contract, set by law or potential (IFRS 37) liability, which has a high probability (usually, more than 50%) to cause the decrease in resources that provide profit. Bank recognizes financial assets and liabilities by standard procedures of purchase and sale with the date of the contract.

At the initial recognition of a financial instruments that are accounted at a fair price with the recognition of revaluation through profits/losses Bank assesses them at their fair price without taking into account operational costs. The Bank reflects operational expenses on buying the financial instruments on accounts of expenses on the date of implementation. Bank evaluates all other financial instruments at time of initial recognition by fair price, to which operational expenses are added.

Note 4. Summary of significant accounting policies (continued)

During the initial recognition of financial instrument Bank reflects profits or losses as sum between the fair price of financial asset or financial liability and const of the contract in correspondence to accounts of discount/premium if effective interest rate on this instrument is greater or lesser than market price. The difference between the fair price of financial asset or liability and cost of the contract on operations with shareholders of the bank is reflected in capital on accounts with class 5 "Bank's Capital" of the chart of accounts and is included in parts to retained earnings(losses) during the period of it's retention or the whole sum at the time of the retirement of financial instrument

Note 4.3. Classification and evaluation

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

Types of business models of the Bank:

- 1) Designed to collect cash flows under the agreements that arise from a financial asset (Hold to collect);
- 2) Designed to collect cash flows under the agreements that arise from a financial asset and from their sale (Hold to collect and sell);
- 3) Other models (the remaining one, that is there is no definition of the model at fair value).

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

- 1) the depreciated cost (DC);
- 2) the fair value with the price change recognition in other comprehensive income (FVOCI);
- 3) the fair value with the price change recognition through profit/loss (FVPL).

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

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.

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Note 4. Summary of significant accounting policies (continued)

Initial cost of asset at the time of its purchase or creation is a cost of spendings on purchasing or creating an asset, which consists of compensation, paid for buying or creating an asset and operational expenses. Historical cost of liabilities upon its acceptance is the cost of compensation obtained for acceptance of the liability minus operational expenses.

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

- 1) the financial asset is withheld within the framework of a business model, which is aimed withholding the financial assets for cash flows provided for by the agreement;
- 2) the financial asset agreement provides for a receipt of cash flows at the specified dates, which are exclusively payments for the principal amount and interest on the outstanding part of 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.

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:

Note 4. Summary of significant accounting policies (continued)

3) financial guarantee, bank guarantee, surety agreements;

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

Note 4.4. Impairment of financial assets

While assessing all financial assets bank determines the class of debtor/counterparty based on the evaluation of financial state of the bank debtor/counterparty.

Financial status is considered to be «good» if:

- Class of debtor is in range of 1 to 8 (for legal entities), from 1 to 3 (for individuals, budget institutions and specialized loans);
- No overdue debt
- Debtor complies with terms, agreed upon by the contract
- Growth dynamics of debtor is assessed as positive
- The prerequisites of worsening of debtors' financial state are absent (taking into account their field) or prerequisites for substantial growth of credit risk.

Financial status is considered to be «satisfactory» if (at least one of the criteria):

- Class of debtor is 9 (for legal entities), 4 (for individuals, budget institutions and specialized loans);
- No overdue debt
- Debtor complies with terms, agreed upon by the contract
- Growth dynamics of debtor is assessed as positive, but the growth is slow
- There are prerequisites of worsening of debtors' financial state (taking into account their field) or prerequisites for substantial growth of credit risk.

Financial status is considered to be «unsatisfactory» if (at least one of the criteria):

- Class of debtor is 10 (for legal entities), 5 (for individuals, budget institutions and specialized loans);
- Overdue debt is present
- Debtor does not comply with terms, agreed upon by the contract
- Growth dynamics of debtor is assessed as negative
- There are prerequisites of worsening of debtors' financial state (taking into account their field) or prerequisites for substantial growth of credit risk.

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

- financial assets assessed at the depreciated cost;
- financial assets assessed at the fair value with the price change recognition through other comprehensive income;
- loan commitments and financial guarantees;
- financial receivables.

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

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

- - impairment (decrease in value) of the Bank's financial tools;
- - availability and recognition by the Bank of signs indicating a high credit risk and/or default of the Debtor;
- - increase in the liabilities and/or expenses of the Bank in comparison with those 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 reserve is carried out for the entire duration of the agreement);

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

Reserves are divided into:

- - the fair value reserves for financial tools of stage 1 of impairment (expected credit losses within 12 months) – the part of expected credit losses during the whole term of usage of financial instrument, that can occur as a result of default during the next 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) – expected credit losses that occur as a result of all possible default scenarios during the expected usage of financial instrument

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 as weighting factors.

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

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

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

Note 4. Summary of significant accounting policies (continued)**Note 4.5. Derecognition of financial assets**

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

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

Note 4.6. Cash and cash equivalents

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

Note 4.7. Due from other banks

Due from other banks are short-term deposits and loans, as well as overnight loans and deposits, for which interest is accrued and provisions for depreciation of possible losses under credit transactions are formed. For the purposes of reporting in "Due from other banks". Bank account balances on correspondent accounts in other banks, on which there is an interest and /or formed provisions for impairment of possible losses on credit operations.

Note 4. Summary of significant accounting policies (continued)**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.

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. Securities transactions

Securities trading activities are carried out by the Bank in accordance with the license of the National Commission on Securities and Stock Market. These operations are performed by the Bank in accordance with the legislation of Ukraine, regulations and duly executed agreements.

During the initial recognition of securities measured at fair value through profit or loss, the Bank measures them at fair value, net of transaction costs. The costs of transactions for the purchase of such securities are reflected in the accounting of expense accounts on the date of their implementation.

All other securities at initial recognition are measured at fair value plus transaction costs.

Securities in the Bank's portfolio that are carried at amortized cost are initially recognized at fair value with the reflection of income and expenses related to the purchase on the discount / premium accounts.

The fair value of the securities at the date of the transaction / reporting date after initial recognition is determined using the following priority methods:

- quotation price of the buyer (last bid price),
- reference to the market price of another similar financial instrument
- on the basis of market yields to maturity resulting from the trading of similar financial instruments for the last month preceding the reporting date,
- on the basis of latest market transactions between interested non-related parties

Note 4. Summary of significant accounting policies (continued)

At each balance sheet date after recognition, all securities purchased by the Bank are measured at fair value, except:

- securities that are carried at amortized cost;
- shares and other non-fixed income securities carried at fair value through profit or loss, the fair value of which cannot be measured reliably.

At each subsequent balance sheet date, securities measured at amortized cost using the effective interest rate are reviewed for impairment (as the difference between the asset's carrying amount and the present value of estimated future cash flows).

The Bank forms reserves for securities issued by non-bank financial institutions. The Bank does not form reserves for securities issued by central executive bodies and the National Bank of Ukraine. Debt on securities recognized by the Bank as bad is written off against the created reserves by the decision of the Management Board of the Bank.

During the reporting year, the Bank's portfolio of securities carried at fair value through other comprehensive income consisted of domestic government bonds and debt securities issued by non-bank financial institutions.

During the reporting year, the Bank's securities portfolio, carried at amortized cost, consisted of bonds issued by non-bank financial institutions and certificates of deposit of the National Bank of Ukraine.

Note 4.9.1. Contracts of sale (purchase) of securities with the obligation to repurchase (sell)

Contracts for the sale (purchase) of securities with the obligation to repurchase (sell) the Bank recognizes as granted (received) a loan secured by securities and accounts for amortized cost. The difference between the sale price and the reverse repurchase price is the interest expense and is recognized in profit or loss over the term of the repurchase agreement using the effective interest rate method.

The Bank continues to recognize securities that have been sold with a repurchase obligation prohibiting the buyer from selling or pledging them in the fair value portfolio, through gains or loss or securities portfolios at fair value through other comprehensive income. If the repurchase agreement gives the buyer the right to sell or pledge the securities, the Bank shall reclassify such securities as securities receivables.

During 2022, the Bank carried out transactions of purchase and sale of securities under repurchase agreements, which were recorded as a credit transaction with interest income recognition and continued recognition of securities in the portfolio, measured at fair value through other comprehensive income from repurchase agreements.

Note 4. Summary of significant accounting policies (continued)**Note 4.9.2. Transactions with own debt securities**

The Bank initially measures and reflects in accounting debt financial liabilities for own debt securities (hereinafter - own debt bonds) at fair value, taking into account transaction costs.

When placing own debt bonds, the Bank recognizes profit or loss in the amount of the difference between the fair value of the bonds and the contract value in correspondence with the discount / premium accounts and the accounts for income or expense in the initial recognition of financial liabilities, higher / lower than fair. If information on the fair value of own debt bonds is missing, income or expense is not recognized in the initial recognition of financial liabilities.

The Bank assesses and reflects in the accounting of bonds of own debt at amortized cost the next balance sheet date after recognition. The Bank recognizes in the accounting interest expenses on debt financial obligations on securities of own debt at the effective interest rate.

The Bank pays the income / repayment of amounts on debt financial obligations on own debt securities in time in accordance with the terms of issue of securities according to the register of securities holders, formed by the National Depository, based on the order issued by the Bank.

Note 4.10. 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.

Depreciation is calculated on a straight-line basis. The residual value of fixed assets is assumed to be zero. Depreciation starts from the first day of the month following the reporting one, in which the object of fixed assets and intangible assets became suitable for beneficial use and stops on the next month to retiring of the object of fixed assets and intangible assets.

Depreciation of the object of fixed assets and intangible assets is counted based on the new useful life, starting from the month following the month of change of useful life.

In the estimation of the useful lives of the assets the following criteria were taken into account: expected useful life of an object, taking into account it's capacity; useful life of similar assets; estimated deterioration of the asset; legal and other constrictions regarding the useful life of an asset and other factors. Useful life of a fixed asset is re-estimated in case of change in expected profits from it's use.

Note 4. Summary of significant accounting policies (continued)**Note 4.11. 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.

During the reporting year as per meeting constant Fixed assets and intangible assets inventory commission decided on setting new term of effective use of individual intangible assets as a result of regular changes to software and changes in assessment of profits from it's usage. (starting from May 25 2022), based on the estimate of their depreciation, power output and productivity.

Note 4.12. Leases.

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

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

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

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

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

Note 4. Summary of significant accounting policies (continued)

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

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

Note 4.13. 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 type of contracts that would be expected to have a similar response to changes in market factors; it is settled at a future date.

A derivative instrument is recognized as a financial asset or financial liability on the date a contract subject to an 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 4.14. Funds raised

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

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

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

Note 4. Summary of significant accounting policies (continued)**Note 4.15. 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 4.16. Income tax

Current income tax expense is determined based on tax laws and current tax rates for the period in which the income is earned.

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

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

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

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

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

Note 4.17. 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. Summary of significant accounting policies (continued)**Note 4.18. 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 4.19. Income and expenses recognition

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

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

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

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

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

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

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

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

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

Note 4. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

Other operating income and administrative 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.

Note 4. Summary of significant accounting policies (continued)

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 4.20. 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 2022 were as follows:

840=USD=100= 3656,86 UAH

978=EUR=100=3895,10 UAH

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 on the risk of losses due to changes in foreign exchange rates is disclosed in the General Information on the Bank's activities in 2022 and in the note "Financial Risk Management".

Note 4.21. 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 4.22. Employee benefits and related charges

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

Note 4. Summary of significant accounting policies (continued)**Note 4.23. 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.

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 2022, 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 4.24. 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.

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.

Note 4. Summary of significant accounting policies (continued)*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 4.25. Related party transactions

During 2022, the Bank carried out transactions with related parties, detailed information regarding which is disclosed in the Note "Related party transactions".

Note 5. New and revised standards**STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right

- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

These definitions should not affect the bank.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank accounting policy disclosures.

Note 5. New and revised standards (continued)**Amendments to IFRS 12 – deferred tax, related to assets and liabilities, arising from one operation**

In May 2021 IFRS Board released amendments to IFRS 12, which narrow the field of application of exceptions during the initial recognition according to IFRS 12, for it not to be used regarding the operations which lead to same taxable and deductible temporary differences.

The amendments should be used in regards to operations that occur on or closest to the start of comparative period. Moreover, on the start or the closest to the start of the comparative period, deferred tax asset should be recognized for each temporary differences, which are subject to deduction and taxation, related to liabilities regarding lease and withdrawn from the use.

At the time bank is assessing the influence of these amendments.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Bank cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Prior to the application of the amendments, the Bank had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts.

Note 5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**Reference to the Conceptual Framework – Amendments to IFRS 3**

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Bank applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Bank as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Bank applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Bank as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the consolidated financial statements of the Bank as it is not a first-time adopter.

Note 5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

(in UAH thousand)

Note 6. Cash and cash equivalents

	2022	2021
Cash with the National Bank of Ukraine	54 959	11 893
Correspondent accounts at other banks:	620 809	195 102
- Ukraine	620 809	195 102
Provisions for impairment of cash and cash equivalents	(111 488)	(38 372)
Total cash and cash equivalents	564 280	168 623

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

Note 7. Loans and due from banks**Table 7.1. Loans and due from banks**

	2022	2021
Loans and due from banks carried at amortized cost	-	130 056
Loans and due from banks carried at fair value through profit/loss	-	4 092
Provisions for impairment	-	(26 011)
Total due from other banks less provisions	-	108 137

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

	2022	2021
Loans to other banks (short-term)	-	130 056
Provisions for impairment of loans and due from banks	-	(26 011)
Total due from other banks less provisions	-	104 045

Table 7.3. Analysis of credit quality of loans and due from banks as at December 31, 2021

	Minimum credit risk	Total
Loans to other banks (short-term)	104 045	104 045
Due from banks in settlements	4 092	4 092
Total due from other banks	108 137	108 137

(in UAH thousand)

Note 7. Loans and due from banks (continued)**Table 7.4. Analysis of credit quality of loans and due from banks as at December 31, 2021**

	Stage 1	Stage 2	Stage 3	Acquired or created impaired assets	Total
Operating assets	130 056	-	-	-	130 056
Low credit risk	130 056	-	-	-	130 056
Medium credit risk	-	-	-	-	-
High credit risk	-	-	-	-	-
Non-operating assets	-	-	-	-	-
Total loans and due from banks less provisions	130 056	-	-	-	130 056

Table 7.5. Analysis of changes in the provision for impairment of loans and due from banks, carried at amortized cost

	Stage 1	Stage 2	Stage 3	Acquired or created impaired assets	Total
Impairment reserve on January 1 2021	-	-	-	-	-
(Increase)/decrease in provision for impairment during the year	(26 011)	-	-	-	(26 011)
Impairment reserve on December 31 2021	(26 011)	-	-	-	(26 011)
(Increase)/decrease in provision for impairment during the year	26 011	-	-	-	26 011
Impairment reserve on December 31 2022	-	-	-	-	-

The amount of the increase of the reserve in the amount of UAH 26 011 thousand is an integral part of the amount of UAH 59 329 thousand in the "Statement of profit and loss and other comprehensive income" (line "Net profit / (loss) from impairment of financial assets").

(in UAH thousand)

Note 8. Loans and due from customers**Table 8.1. Loans and due from customers**

	2022	2021
Loans and due from customers carried at amortized cost	58 377	72 609
Provision for loan impairment	(19 240)	(2 632)
Total loans to customers less provisions	39 137	69 977

Table 8.2. Loans and due from customers carried at amortized cost

	2022	2021
Loans to legal entities	52 455	60 724
Loans to individuals	5 922	11 885
Provision for loan impairment	(19 240)	(2 632)
Total loans to customers less provisions	39 137	69 977

At the moment the loan portfolio forms less than 1 % 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. The Bank does not have non-performing loans.

The structure of loans to legal entities comprises a loan to the Bank's related person in the amount of UAH 3 041 thousand

Table 8.3. Analysis of loan quality carried at amortized cost as at December 31, 2022

	Stage 1	Stage 2	Stage 3	Total
Operating assets	22 379	-	35 998	58 377
Low credit risk	22 379	-	-	22 379
Medium credit risk	-	-	-	-
High credit risk	-	-	-	-
Non-operating assets*	-	-	35 998	35 998
Total loans and due from customers	22 379	-	35 998	58 377

* Assets, for which the class of debtors/counterparties is defined as the lowest, are non-operating assets

Taking into account the default of Borrower, it's decided to value financial assets as per 3 stage. Transition took place because of Borrowers financial state and troubles with meeting the obligations to Bank in the future.

(in UAH thousand)

Note 8. Loans and due from customers (continued)**Table 8.4. Analysis of loan quality carried at amortized cost as at December 31, 2021**

	Stage 1	Stage 2	Stage 3	Total
Operating assets	72 609	-	-	72 609
Low credit risk	72 609	-	-	72 609
Medium credit risk	-	-	-	-
Total gross book value of loans and due from customers	-	-	-	-
Non-operating assets	-	-	-	-
Total loans and due from customers	72 609	-	-	72 609

Table 8.5. Analysis of changes in provisions for impairment of loans and due from customers carried at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Impairment reserve on January 1 2021	-	-	-	-
(Increase)/decrease in provision for impairment during the year	(2 632)	-	-	(2 632)
Impairment reserve on December 31 2021	(2 632)	-	-	(2 632)
(Increase)/decrease in provision for impairment during the year	1 075	-	(17 683)	(16 608)
Impairment reserve on December 31 2022	(1 557)	-	(17 683)	(19 240)

The amount of the decrease of the provision UAH 16 608 thousand is an integral part of the amount UAH 59 329 thousand in the «Statement of profit or loss and other comprehensive income» («Net increase/(decrease) in provisions for impairment of financial assets»).

Table 8.6. Analysis of changes in gross book value of loans and due from customers carried at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Gross book value as at December 31, 2021	69 977	-	-	69 977
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	(35 998)	-	35 998	-
Other changes (repayment/provision)	(13 157)	-	(17 683)	(30 840)
Gross book value as at December 31, 2022	20 822	-	18 315	39 137

Note 8. Loans and due from customers (continued)

Table 8.7 Loans structure by types of economic activities

	2022		2021	
	Amount	%	Amount	%
Supply of electricity, gas, steam and air conditioning	-	-	10 085	17
Wholesale trade, except of motor vehicles and motorcycles	16 457	31	13 042	21
Real estate activities	35 998	69	37 597	62
Total loans and due from customers except for provisions	52 455	100	60 724	100

Table 8.8. Information on loans by type of collateral as at December 31, 2022

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	16 457	1 280	17 737
Loans secured by:	35 998	4 642	40 640
- real estate:	35 998	4 642	40 640
including residential purposes	-	4 642	4 642
Total loans and due from customers except for provisions	52 455	5 922	58 377

Table 8.9. Information on loans by type of collateral as at December 31, 2021

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	23 127	1 651	24 778
Loans secured by:	37 597	10 234	47 831
- real estate:	37 597	10 234	47 831
including residential purposes	-	10 234	10 234
Total loans and due from customers except for provisions	60 724	11 885	72 609

Note 8. Loans and due from customers (continued)

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

Table 8.10. Impact of collateral value on loan quality as at 31 December 2022

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	52 455	35 998	16 457
Loans to individuals	5 922	4 642	1 280
Total loans	58 377	40 640	17 737

Table 8.11. Impact of collateral value on loan quality as at 31 December 2021

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	60 724	37 597	23 127
Loans to individuals	11 885	10 234	1 651
Total loans	72 609	47 831	24 778

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

Note 9. Investments in securities**Table 9.1 Investment in securities**

	2022	2021
Securities carried at amortized cost	8 480 675	142 614
Securities carried at fair value through other comprehensive income	297 119	1 819 403
Total securities	8 777 794	1 962 017

Table 9.2 Investment in securities carried at amortized cost

	2022	2021
Debt securities:	8 480 675	100 022
Deposit certificates of the National Bank of Ukraine	-	46 998
Bonds of enterprises	-	(4 406)
Provision for debt securities carried at amortized cost	8 480 675	142 614

Deposit certificates of the National Bank of Ukraine are accounted for in the Bank's portfolio at amortized cost and take into account accrued interest in the amount of UAH 10 675 thousand. as at December 31, 2022

Note 9. Investments in securities (continued)

Table 9.3 Securities carried at fair value through other comprehensive income

	2022	2021
Government bonds	296 118	1 818 402
Bonds of enterprises	1 492	1 161
Provision for debt securities carried at fair value through other comprehensive income	(491)	(160)
Total securities	297 119	1 819 403

Government bonds are carried at fair value through other comprehensive income and comprise accrued interest accrued in the amount of UAH 12 249 thousand as at 31 December 2022.

Table 9.4. Analysis of the credit quality of investments in securities carried at amortized cost as at December 31, 2022

	Stage 1	Stage 2	Stage 3	Total
Debt securities carried at amortized cost	8 480 675	-	-	8 480 675
Minimum credit risk*	8 480 675	-	-	8 480 675
Low credit risk	-	-	-	-
Total investments in securities	-	-	-	-
Provisions for impairment	-	-	-	-
Total debt securities	8 480 675	-	-	8 480 675

*Minimum credit risk is identified if probability of failure of debtor to fulfill the obligations to Bank (the index of risk of financial instrument is the value of PD) is in the range of 0 to 0,1.

Table 9.5. Analysis of the credit quality of investments in securities carried at fair value through other comprehensive income as at December 31, 2022

	Stage 1	Stage 2	Stage 3	Total
Operating assets	297 610	-	-	297 610
Minimum credit risk	247 551	-	-	247 551
Low credit risk	50 059	-	-	50 059
Total investments in securities	-	-	-	-
Provisions for impairment	-	-	-	-
Total debt securities	297 610	-	-	297 610

(in UAH thousand)

Note 9. Investments in securities (continued)**Table 9.6. Analysis of the credit quality of investments in securities carried at amortized cost as at December 31, 2021**

	Stage 1	Stage 2	Stage 3	Total
Operating assets	147 020	-	-	147 020
Debt securities carried at fair value through other comprehensive income	100 022	-	-	100 022
Minimum credit risk	46 998	-	-	46 998
Low credit risk	-	-	-	-
Total debt securities	147 020	-	-	147 020

Table 9.7. Analysis of the credit quality of investments in securities carried at fair value through other comprehensive income as at December 31, 2021

	Stage 1	Stage 2	Stage 3	Total
Operating assets	1 819 563			1 819 563
Debt securities carried at fair value through other comprehensive income	1 288 657	-	-	1 288 657
Minimum credit risk	530 906	-	-	530 906
Low credit risk	-	-	-	-
Total investments in securities	-	-	-	-
Provisions for impairment	-	-	-	-
Total debt securities	1 819 563	-	-	1 819 563

Note 10. Derivative financial assets**Table 10.1. Financial assets at fair value through profit or loss**

	2022	2021
Assets under forward agreements	-	30
Assets under future agreements	-	2
Assets under contracts under terms of SWAP	-	178
Total financial assets at fair value through profit or loss	-	210

(in UAH thousand)

Note 11. Fixed and intangible assets

As at 31 December 2022, 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.

Table 11.1. Fixed and intangible assets

	Machinery and equipment	Instruments, fixtures and fittings	Other fixed tangible assets	Intangible assets	Total
Carrying amount as at 31 December 2020	991	51	-	850	1 892
initial cost	2 729	355	948	2 381	6 413
depreciation	(1 738)	(304)	(948)	(1 531)	(4 521)
Additions	334	-	137	811	1 282
Capital investments into fixed completion and intangible assets improvement	-	-	-	160	160
Depreciation	(358)	(25)	(137)	(374)	(894)
Carrying amount as at 31 December 2021	967	26	-	1 447	2 440
initial cost	3 063	355	1 085	3 352	7 855
depreciation	(2 096)	(329)	(1 085)	(1 905)	(5 415)
Additions	3 007	-	55	60	3 122
Capital investments into fixed completion and intangible assets improvement	131	-	-	668	799
Depreciation	(383)	(20)	(55)	(413)	(871)
Carrying amount as at 31 December 2022	3 722	6	-	1 762	5 490
initial cost	6 201	355	1 140	4 080	11 776
depreciation	(2 479)	(349)	(1 140)	(2 318)	(6 286)

Note 11. Fixed and intangible assets (continued)

Table 11.2. Right-of-use assets

	Real estate (lease)	Total
Carrying amount as at 31 December 2020	84	84
Initial cost	950	950
Depreciation	(866)	(866)
Additions	933	933
Disposals	(855)	(855)
Carrying amount as at 31 December 2021	78	78
Initial cost	933	933
Depreciation	(855)	(855)
Additions	1 130	1 130
Disposals	(1 208)	(1 208)
Carrying amount as at 31 December 2022	-	-

Note 12. Other financial assets

Table 12.1. Other financial assets

	2022	2021
Accounts receivable with banks / fin. institutions	-	629
Accounts receivable on foreign currency transactions	-	-
Accrued income for services	1	1 212
Provisions for impairment of other assets	(1)	(308)
Total other assets less reserves	-	1 533

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

	Prepayments for services	Total
Carrying amount as at January 1 2021	(415)	(415)
(Increase)/decrease of the provisions during the period	107	107
Carrying amount as at December 31 2021	(308)	(308)
(Increase)/decrease of the provisions during the period	307	307
Carrying amount as at December 31 2022	(1)	(1)

Note 13. Other assets

Table 13.1. Other assets

	2022	2021
Deferred expenses	16 664	7 797
Other	1	3
Provisions for other assets	-	-
Total other assets less provisions	16 665	7 800

Note 14. Due to banks

	2022	2021
Funds received from the National Bank of Ukraine	-	1 189 996
Sale and repurchase agreements with other banks	-	-
Loans received, short-term	-	-
Total due to banks	-	1 189 996

Note 15. Due to customers

Table 15.1 Due to customers

	2022	2021
State organizations:	28	99
-currents accounts	28	99
-term deposits	-	-
Other legal entities:	8 751 853	704 837
-current accounts	8 622 555	508 055
-term deposits	129 298	196 782
Individuals:	347 231	115 450
-current accounts	336 099	115 251
-term deposits	11 132	199
Total due to customers	9 099 112	820 386

Table 15.2 Distribution of due to customers by type of economic activity

	Amount	2022 %	Amount	2021 %
Financial and insurance activities	8 066 700	88,65	115 816	14,12
Services (financial)	315 569	3,48	131 333	16,01
Information and telecommunications	3 662	0,04	203	0,02
Trade	46 423	0,51	56 471	6,88
Agriculture and fisheries	3 060	0,03	10 075	1,23
Warehousing and support activities in the field of transport	74 044	0,81	82 026	10,00
Extraction	1	0,00	193 097	23,54
Construction	2 267	0,02	64 748	7,89
Electricity supply	36 526	0,40	35 835	4,37
Consulting activities	12 998	0,14	4 774	0,58
Activities of public organizations	139	0,00	1 223	0,15
Manufacturing	3 349	0,04	3 986	0,49
Health care	3	0,00	0	0,00
Property transactions	350	0,00	1 464	0,18
Individuals, including non-residents	347 231	3,82	3 885	0,47
Non-resident investors	186 790	2,06	115 450	14,07
Total due to customers	9 099 112	100	820 386	100,00

Note 16. Debt securities issued by the bank

	2022	2021
Bonds (Series A)	4 610	22 693
Bonds (Series B)	2 560	2 559
Certificates of deposit	-	974
Total	7 170	26 226

During the reporting period, the Bank repurchased its own debt bonds:

- Series A (term of circulation until 08.04.2026 inclusive). The number of redeemed bonds is 95,500. The interest rate on Series A bonds is set at
 - o 10.0% (ten percent) per annum in hryvnia for 1-4 percent periods.
 - o set at 11.0% (eleven percent) per annum in hryvnia for 5-8 percent periods.
- Series B (term of circulation until 07.04.2027 inclusive). The number of redeemed bonds is 97 500. The interest rate on Series B bonds is set at 11.0% (eleven percent) per annum in hryvnia.

Note 17. Other raised funds

	2022	2021
Loans from international and other financial organizations	39 050	31 001
Total	39 050	31 001

(in UAH thousand)

Note 18. Derivative financial liabilities

	2022	2021
Liabilities under forward agreements	194	334
Liabilities under futures agreements	-	-
Liabilities under contracts under terms of SWAP	996	3 553
Total financial liabilities at fair value through profit or loss	1 190	3 887

Note 19. Provisions for liabilities

	Loan liabilities	Total
Opening balance	87	87
Formation and / or decrease (increase in reserve)	22	22
Closing balance	109	109

Provisions for liabilities consist of reserves for possible impairment losses on provided financial guarantees with maturity in 2023.

Note 20. Other financial liabilities

	2022	2021
Accounts payable for transactions with foreign currency	1	1
Other financial liabilities	-	-
Total	1	1

Note 21. Other liabilities

	2022	2021
Accounts payable in settlements with bank employees	15 603	11 492
Accounts payable for taxes and fees, except income tax	128	80
Accounts payable for transactions with customers	66	62
Accrued costs for telecommunications and maintenance services	58	73
Accounts payable on right-of-use assets	-	80
Accounts payable for other accrued expenses	42	153
Total	15 897	11 940

(in thousands)

Note 22. Share capital

	Number of shares in circulation	Ordinary shares	Preferred shares	Total
Balance as at 1 January 2022	122 000	122 000		122 000
Contributions on shares (units, shares) of the new issue	-	-	-	-
Balance as at 31 December 2022	122 000	122 000		122 000

As of December 31, 2022, the authorized capital of the Bank is UAH 200 080 thousand. The authorized capital of the Bank is divided into 122,000 ordinary registered shares. The shares are fully paid. The nominal value of a simple registered share as of December 31, 2022 is UAH 1,640. Ordinary registered shares entitle the shareholder to participate in the management of the Bank, receive dividends, exercise the preemptive right to purchase additional shares, if such shares are placed by private placement, disposal of shares owned by each shareholder, receiving part of the Bank's property or its value in case of liquidation. One simple registered share gives the right to one vote to resolve each issue at the General Meeting of Shareholders, except in cases of cumulative voting. Dividends are paid to shareholders based on each share of a certain type due to them from the net profit of the reporting year and / or retained earnings in the amount established by the decision of the General Meeting of Shareholders within six months after the end of the reporting year. The Bank pays dividends exclusively in cash.

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

(in UAH thousand)

Note 23. Revaluation reserves (components of other comprehensive income)

	2022	2021
Revaluation of debt financial instruments	(2 463)	(1 674)
Income tax related to:	443	301
Total revaluation reserves (other comprehensive income)	(2 020)	(1 373)

Note 24. Analysis of assets and liabilities by maturities

		Note	2022			2021		
			Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
Assets								
Cash and cash equivalents	6	564 280	-	564 280	168 623	-	168 623	
Loans and due from banks	7	-	-	-	108 137	-	108 137	
Loans and due from customers	8	14 975	24 162	39 137	20 495	49 482	69 977	
Investments in securities	9	8 776 793	1 001	8 777 794	1 943 079	18 938	1 962 017	
Derivative finance assets	10	-	-	-	210	-	210	
Current income tax receivables		-	-	-	2 856	-	2 856	
Deferred tax assets	28	4 252	-	4 252	-	-	-	
Fixed and intangible assets	11	-	5 490	5 490	-	2 440	2 440	
Right-of-use assets	11	-	-	-	78	-	78	
Other financial assets	12	-	-	-	1 533	-	1 533	
Other assets	13	8 859	7 806	16 665	4 284	3 516	7 800	
Total assets		9 369 159	38 459	9 407 618	2 249 295	74 376	2 323 671	
Liabilities								
Due to banks	14	-	-	-	374 999	814 997	1 189 996	
Due to customers	15	9 099 112	-	9 099 112	629 113	191 273	820 386	
Debt securities issued by the bank	16	-	7 170	7 170	974	25 252	26 226	
Other raised funds	17	39 050	-	39 050	31 001	-	31 001	
Derivative finance liabilities	18	1 190	-	1 190	3 887	-	3 887	
Current income tax liabilities		2 175	-	2 175	-	-	-	
Deferred tax liabilities	28	258	-	258	399	-	399	
Other financial liabilities	20	1	-	1	1	-	1	
Other liabilities	21	15 897	-	15 897	11 940	-	11 940	
Total liabilities	19	109	-	109	87	-	87	
Assets		9 157 792	7 170	9 164 962	1 052 401	1 031 522	2 083 923	

(in UAH thousand)

Note 25. Interest income and expense

	2022	2021
INTEREST INCOME CALCULATED AT THE EFFECTIVE INTEREST RATE		
Interest income on financial assets carried at amortized cost		
Loans and due from customers	12 728	10 680
Loans and due from banks	901	6 326
Correspondent accounts in other banks	1 178	25
Deposit certificates, bonds of Bank	654 885	14 517
Total interest income on financial assets carried at amortized cost	669 692	31 548
Interest income on financial assets carried at fair value through other comprehensive income		
Debt securities	130 322	156 806
Total interest income on financial assets carried at fair value through other comprehensive income	130 322	156 806
Total interest income calculated at the effective interest rate	800 014	188 354
INTEREST EXPENSE CALCULATED AT THE EFFECTIVE INTEREST RATE		
Interest expense on financial liabilities carried at amortized cost		
Term funds of legal entities	(106 989)	(80 955)
Funds of individuals	(26 557)	(20 585)
Term funds of other banks	(2 313)	(4 138)
Current accounts	(1 837)	(665)
Debt securities issued by the bank	(1 342)	(7 123)
Other funds raised	(349)	(327)
Lease liabilities	(45)	(29)
Other	-	-
Total interest expense calculated at the effective interest rate	(139 432)	(113 822)
Net interest income	660 582	74 532

Compared to the result of 2021, there was an increase in net interest income.

Note 26. Commission income and expenses

	2022	2021
Commission income		
Settlement operations	2 533	3 347
Commissions on foreign exchange transactions	3 649	10 066
Commission income from guarantee operations	129	132
Other	10	256
Total commission income	6 321	13 801
Commission expenses		
Settlement operations	(1 280)	(1 669)
Transactions with securities	(8)	(29)
Other	(10)	(10)
Total commission expenses	(1 298)	(1 708)
Net commission income	5 023	12 093

Compared to 2021, there was a decrease in net commission income.

Note 27. Administrative and other operating expenses

Table 27.1 Expenses for payments to employees

	2022	2021
Salaries and bonuses	(35 549)	(28 126)
Accrual on the salary fund	(4 383)	(3 830)
Other payments to employees	(834)	(800)
Total staff costs	(40 766)	(32 756)

Table 27.2 Depreciation costs

	2022	2021
Depreciation of fixed assets	(402)	(383)
Depreciation of software and intangible assets	(468)	(511)
Depreciation of right-of-use asset	(486)	(940)
Total depreciation costs	(1 356)	(1 834)

Table 27.3 Other administrative and operating expenses

	2022	2021
Staff remuneration costs	(580 968)	(876)
Expenses for maintenance of fixed assets and intangible assets	(2 684)	(2 251)
Operating lease costs (lease)	(63)	(290)
Payment of other taxes and mandatory payments, except income tax	-	(201)
Telecommunication services	(3 089)	(3 351)
Audit costs	(810)	(958)
Costs of data storage services	(2 017)	(859)
Costs of operating and business services	(1 720)	(649)
Other	(25 244)	(3 490)
Reserve	-	-
Total administrative and other operating expenses	(616 595)	(12 925)

The average number of the Bank's staff in 2022 was 24. Expenses for payments to employees and staff:

- expenses for basic and additional salaries in the amount of UAH 23 833 thousand
- single contribution to the obligatory state insurance – UAH 4 383 thousand
- expenses for the creation of a reserve for unused vacations – UAH 1 985 thousand;
- contributions to the non-state pension provision of employees - UAH 197 thousand;
- expenses of voluntary medical and other types of insurance for employees – UAH 905 thousand;
- expenses for payment of remuneration to staff under contracts – UAH 580 686 thousand.

In 2022, remuneration was paid to members of the Supervisory Board (6 members) in the amount of UAH 580 401 thousand. (2021: UAH 368 thousand), in terms of the following components: variable UAH 580 087 thousand (2021 UAH 78 thousand), fixed – UAH 314 thousand (2021 UAH 290 thousand), and members of the Management Board (4 members) in the amount of UAH 12 188 thousand. (2021 UAH 10 241 thousand): variable– UAH 3 569 thousand. (2021.: UAH 2 353 thousand), fixed – UAH 8 619 thousand (2021 UAH 7 888 thousand).

Note 28. Income tax expense

Table 28.1 Income tax expense

	2022	2021
Current income tax	(4 117)	(2 139)
Change in deferred income tax	3 336	(156)
Income tax paid on income of foreign origin at the source of payment	-	-
Total income tax expense	(781)	(2 295)

Table 28.2 Reconciliation of the amount of accounting profit / loss and the amount of tax profit / loss

	2022	2021
Profit before tax	4 336	12 751
Theoretical tax deductions at the appropriate tax rate	(781)	(2 295)
Other adjustments	3 336	(156)
Change in deferred income tax	(3 336)	156
Income tax expense	(781)	(2 295)

Table 28.3 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2022

	Balance as at 31 December 2021	Recognized in statement of comprehensive income	Recognized in equity	Other	Balance as at 31 December 2022
Tax impact of temporary differences that reduce (increase) the amount of taxation and deferred tax losses for future periods:					
revaluation of assets	301	-	141		442
fixed assets	56	(4)	-		52
provisions for impairment of assets	69	4	-		73
accrued expenses	21				21
other	(846)	3 336	-	916	(846)
Net deferred tax asset / (liabilities)	(399)		141		(258)
Deferred tax liability recognized		3 336		916	4 252

(in UAH thousand)

Table 28.4 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2021

	Balance as at 31 December 2020	Recognized in statement of comprehensive income	Recognize d in equity	Other	Balance as at 31 Decemb er 2021
Tax impact of temporary differences that reduce (increase) the amount of taxation and deferred tax losses for future periods:					
revaluation of assets	20	-	281	-	301
fixed assets	60	(4)	-	-	56
provisions for impairment of assets	66	3	-	-	69
accrued expenses	3	18	-	-	21
other	(673)	(173)	-	-	(846)
Deferred tax liability recognized	(524)	(156)	281	-	(399)

Note 29. Earnings / (loss) per ordinary and preferred share**Table 29.1 Net and adjusted earnings / (loss) per ordinary and preferred share**

	2022	2021
Profit / (loss) owned by shareholders - owners of ordinary shares of the bank (UAH thousand)	3 555	10 455
Profit / (loss) for the year (UAH thousand)	3 555	10 455
Average annual number of ordinary shares outstanding (thousands of shares)	122	122
Net profit / (loss) per ordinary share (UAH)	29,15	85,70
Adjusted net profit / (loss) per ordinary share, UAH		
base	29,15	85,70
diluted	29,15	85,70

Table 29.2 Calculation of profit / (loss) attributable to shareholders - holders of ordinary and preferred shares of the bank

	2022	2021
Profit / (loss) for the year owned by the owners of the bank	3 555	10 455
Retained earnings / (loss) for the year	3 555	10 455
Retained earnings / (loss) for the year due to holders of ordinary shares depending on the terms of the shares	3 555	10 455
Profit / (loss) owned by shareholders - owners of ordinary shares of the bank	3 555	10 455

Note 30. Operating segments

Table 30.1. Revenues, expenses and results of reporting segments for 2022

	Operating segments		Total
	Treasury operations	Other	
Interest income	800 014	-	800 014
Fee and commission income	3 781	2 540	6 321
Result from transactions with financial instruments at fair value through profit or loss	(4 686)	-	(4 686)
Result from transactions with debt financial instruments at fair value through other comprehensive income	(10 210)	-	(10 210)
The result of foreign currency transactions	5 195	-	5 195
The result of the revaluation of foreign currency	66 352	-	66 352
Other operating income	148	-	148
Total income	860 594	2 540	863 134
Interest expenses	(139 432)	-	(139 432)
Fee and commission expenses	(9)	(1 289)	(1 298)
Net income from impairment of financial assets	(59 329)	-	(59 329)
Result from increase / (decrease) in reserves for liabilities	(22)	-	(22)
Staff costs	(40 766)	-	(40 766)
Depreciation and amortization costs	-	(1 356)	(1 356)
Other administrative and operating expenses	(35 627)	(580 968)	(616 595)
Total expenses	(275 185)	(583 613)	(858 798)
Income tax expenses	(781)	-	(781)

Table 30.2 Assets and liabilities of reporting segments for 2022

	Operating segments		Total
	Treasury operations	Other	
Segment assets	9 287 115	120 503	9 407 618
Total assets	9 287 115	120 503	9 407 618
Segment liabilities	9 146 522	18 440	9 164 962
Total liabilities	9 146 522	18 440	9 164 962

Note 30. Operating segments (continued)

Table 30.3. Revenues, expenses and results of reporting segments for 2021

	Operating segments		Total
	Treasury operations	Other	
Interest income	188 354	-	188 354
Fee and commission income	10 210	3 591	13 801
Result from transactions with financial instruments at fair value through profit or loss	(3 253)	-	(3 253)
Result from transactions with debt financial instruments at fair value through other comprehensive income	2 908	-	2 908
The result of foreign currency transactions	13 164	-	13 164
The result of the revaluation of foreign currency	(920)	-	(920)
Other operating income	4	-	4
Total income	210 467	3 591	214 058
Interest expenses	(113 822)	-	(113 822)
Fee and commission expenses	(29)	(1 679)	(1 708)
Net income from impairment of financial assets	(38 246)	-	(38 246)
Result from increase / (decrease) in reserves for liabilities	(17)	-	(17)
Staff costs	(32 756)	-	(32 756)
Depreciation and amortization costs	-	(1 834)	(1 834)
Other administrative and operating expenses	(12 049)	(876)	(12 925)
Total expenses	(196 919)	(4 389)	(201 308)
Income tax expenses	(2 295)	-	(2 295)

Table 30.4 Assets and liabilities of reporting segments for 2021

	Operating segments		Total
	Treasury operations	Other	
Segment assets	2 223 002	100 669	2 323 671
Total assets	2 223 002	100 669	2 323 671
Segment liabilities	2 071 497	12 426	2 083 923
Total liabilities	2 071 497	12 426	2 083 923

Note 31. Financial risk management

The Bank has developed and implemented procedures for risk management and control. The risk management process is based on the relevant regulations of the National Bank of Ukraine. The Bank's risk management process consists of prevention, identification, measurement, analysis, mitigation, control and monitoring, reporting regarding all significant risks, to which the Bank is exposed in its activity.

Credit risk

Credit risk management, limiting its negative impact on the Bank's activities is one of the key tasks of strategic management. In accordance with the Recommendations of the Basel Committee on Banking Supervision, the Bank uses a standardized approach to credit risk assessment. The assessment is carried out in two directions: qualitative and quantitative.

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

- making investments exclusively in profitable and high-quality credit assets;
- a balanced approach to lending to corporate clients is based on the analysis of financial indicators, activities of enterprises, markets, industry trends, etc.;
- use of the principle of identification of the borrower "Know your client";
- decision-making on the loan is based on a qualitative analysis of the borrower's solvency, sources of loan repayment and prospects for business development;
- diversification of the loan portfolio taking into account industry risks, susceptibility to global trends, export orientation, market volatility.

The ratio of the sum of all requirements to the counterparty or group of related counterparties and all financial liabilities provided by the bank to the counterparty or group of related counterparties to the regulatory capital of the Bank (hereinafter H7) shall not exceed 25 percent. As of December 31, 2022, the value of the H7 standard was 6.42%.

Market risk

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

The main tools for achieving these goals are the Bank's comprehensive risk management system, which provides for the coordination of actions of all departments within a single strategy for risk management, approved by the Supervisory Board of the Bank.

Note 31. Financial risk management (continued)**Foreign currency risk****Table 31.1 Foreign currency risk analysis**

Currency	2022			2021		
	Monetary assets	Monetary liabilities	Net foreign exchange position	Monetary assets	Monetary liabilities	Net foreign exchange position
USD	181 772	175 001	6 771	580 726	575 477	5 249
EUR	153 535	157 843	(4 308)	94 553	100 382	(5 829)
Total	335 307	332 844	2 463	675 279	675 859	(580)

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 are established at the Bank. The methodology and mechanisms of foreign currency risk management are updated constantly.

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

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

Note 31. Financial risk management (continued)

Table 31.2 Change in financial result and equity as a result of possible changes in exchange rates set at the reporting date, provided that all other variables remain fixed

	2022		2021	
	Impact on profit/ (loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
USD strengthening by 25%	1 693	1 693	1 312	1 312
USD weakening by 25%	(1 693)	(1 693)	(1 312)	(1 312)
EUR strengthening by 25%	(1 077)	(1 077)	(1 457)	(1 457)
EUR weakening by 25%	1 077	1 077	1 457	1 457

In order to ensure the stable activity of the Bank, the formation of regulatory capital in accordance with the requirements of the National Bank of Ukraine and taking into account the recommendations on minimum capital requirements of the Basel Committee on Banking Supervision, as well as to determine the size and control of capital adequacy The Bank has implemented a model of internal control over the level of capital adequacy in all areas of its activity.

The risk of financial loss and the probability of a decrease in the cost of capital due to changes in exchange rates and prices for bank metals, unfavorable (opposite) to existing open currency positions, is an important type of risk that arises in the course of the bank's activities. The amount of possible financial losses depends on the size of open currency positions and the magnitude of changes in the exchange rates of the respective currencies. The analysis of the impact of the projected change in exchange rates on the financial result of the Bank is carried out using the approaches developed by the Bank.

The Bank does not consider other risks significant for the Bank, so the Bank does not monitor them.

Interest rate risk

Table 31.3 General analysis of interest rate risk in 2022

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
2022						
Total financial assets	9 050 004	511	14 976	24 162	291 558	9 381 211
Total financial liabilities	795 342	14 302	4	8 394	8 328 589	9 146 631
Net interest rate gap at the end of December 31	8 254 662	(13 791)	14 972	15 768	(8 037 031)	234 580

Note 31. Financial risk management (continued)

Table 31.4 General analysis of interest rate risk in 2021

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
2021						
Total financial assets	2 086 046	23 622	11 869	68 727	120 233	2 310 497
Total financial liabilities	1 711 753	21 256	193 099	25 231	120 244	2 071 583
Net interest rate gap at the end of December 31	374 293	2 366	(181 230)	43 496	(11)	238 914

Table 31.5 Monitoring of interest rates on financial instruments
(%)

	2022				2021			
	UAH	USD	EUR	Other	UAH	USD	EUR	Other
Assets								
Cash and cash equivalents	-	-	-	-	-	-	-	-
Loans and due from banks	-	-	-	-	8,1	1,6	-	-
Loans and due from customers	22,1	-	7	-	18,5	5,0	-	-
Investment in securities	12,0	4,4	2,9	-	11,4	3,5	2,2	0
Other assets	-	-	-	-	-	-	-	-
Liabilities								
Due to other banks	-	-	-	-	9,1	-	1,0	-
Due to customers	0,8	0,5	0,4	-	4,4	2,1	0,4	-
Debt securities, issued by the Bank	11,1	-	-	-	10,3	-	-	-
Other raised funds	-	-	1,0	-	-	-	1,0	-
Current accounts	0,8	0,4	0,6	-	4,3	0,8	-	-
Term deposits	2,5	0,7	0,3	-	8,5	2,5	1,0	-
Other liabilities	-	-	-	-	-	-	-	-

Note 31. Financial risk management (continued)**Geographical risk****Table 31.6 Analysis of the geographical concentration of financial assets and liabilities for 2022**

	Ukraine	OECD	Other countries	Total
<u>Assets</u>				
Cash and cash equivalents	564 280	-	-	564 280
Loans and due from banks	-	-	-	-
Loans and due from customers	39 137	-	-	39 137
Investment in securities	8 777 794	-	-	8 777 794
Derivative financial assets	-	-	-	-
Other financial assets	-	-	-	-
Total financial assets	9 381 211	-	-	9 381 211
<u>Liabilities</u>				
Due to other banks	-	-	-	-
Due to customers	8 668 235	242 579	188 297	9 099 111
Debt securities issued by the bank	7 170	-	-	7 170
Other raised funds	-	-	39 050	39 050
Derivative financial liabilities	1 190	-	-	1 190
Other financial liabilities	110	-	-	110
Total financial liabilities	8 676 705	242 579	227 347	9 146 631

Assets and liabilities were classified on the basis of the counterparty's residence data.

Table 31.7 Analysis of the geographical concentration of financial assets and liabilities for 2021

	Ukraine	OECD	Other countries	Total
<u>Assets</u>				
Cash and cash equivalents	168 623	-	-	168 623
Loans and due from banks	108 137	-	-	108 137
Loans and due from customers	69 977	-	-	69 977
Investment in securities	1 962 017	-	-	1 962 017
Derivative financial assets	210	-	-	210
Other financial assets	1 533	-	-	1 533
Total financial assets	2 310 497	-	-	2 310 497
<u>Liabilities</u>				
Due to other banks	1 189 996	-	-	1 189 996
Due to customers	816 194	307	3 885	820 386
Debt securities issued by the bank	26 226	-	-	26 226
Other raised funds	-	-	31 001	31 001
Derivative financial liabilities	3 887	-	-	3 887
Other financial liabilities	87	-	-	87
Total financial liabilities	2 036 390	307	34 886	2 071 583

Assets and liabilities were classified on the basis of the counterparty's residence data.

(in UAH thousand)

Note 31. Financial risk management (continued)**Liquidity risk****Table 31.8 Analysis of financial assets and liabilities by maturity based on expected maturities as at December 31, 2022**

	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	564 280	-	-	-	-	564 280
Loans and due from banks	-	-	-	-	-	-
Loans and due from customers	-	-	14 976	24 161	-	39 137
Investment in securities	8 777 283	511	-	-	-	8 777 794
Derivative financial assets	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
Total financial assets	9 341 563	511	14 976	24 161	-	9 381 211
Liabilities						
Due to other banks	-	-	-	-	-	-
Due to customers	9 084 407	14 295	10	399	-	9 099 111
Debt securities issued by the bank	-	-	-	7 170	-	7 170
Other raised funds	39 050	-	-	-	-	39 050
Derivative financial liabilities	1 190	-	-	-	-	1 190
Other financial liabilities	110	-	-	-	-	110
Total financial liabilities	9 124 757	14 295	10	7 569	-	9 146 631
Net liquidity gap at the end of December 31	216 806	(13 784)	14 966	16 593	-	234 580
Cumulative liquidity gap at the end of the day on December 31	216 806	203 022	217 987	234 580	234 580	

Table 31.9 Analysis of financial assets and liabilities by maturity based on expected maturities as at December 31, 2021

	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	168 623	-	-	-	-	168 623
Loans and due from banks	108 137	-	-	-	-	108 137
Loans and due from customers	8 673	-	11 869	49 435	-	69 977
Investment in securities	1 919 424	23 623	-	-	18 970	1 962 017
Derivative financial assets	210	-	-	-	-	210
Other financial assets	1 212	-	-	321	-	1 533
Total financial assets	2 206 279	23 623	11 869	49 756	18 970	2 310 497
Liabilities						
Due to other banks	1 189 996	-	-	-	-	1 189 996
Due to customers	610 097	16 789	193 101	399	-	820 386
Debt securities issued by the bank	-	-	1 493	22 235	2 498	26 226
Other raised funds	31 001	-	-	-	-	31 001
Derivative financial liabilities	3 887	-	-	-	-	3 887
Other financial liabilities	87	-	-	-	-	87
Total financial liabilities	1 835 068	16 789	194 594	22 634	2 498	2 071 583
Net liquidity gap at the end of December 31	371 211	6 834	(182 725)	27 122	16 472	238 914
Assets	371 211	378 045	195 320	222 442	238 914	

Note 31. Financial risk management (continued)

The management process of operational risk, compliance risk, strategic risk and reputation risk, risk regarding professional activity on stock market, involves effective management at all stages (from risk detection to minimization and control) and is carried out using a system of appropriate parameters.

The main purpose of creating and operating a system of parameters for managing operational risk, compliance risk, strategic risk, reputation risk, risk regarding professional activity on stock market is to ensure the adoption of appropriate management decisions aimed at reducing the impact of risk on the Bank as a whole in relation to certain activities of the Bank.

Other risks

The strategic, operational, compliance, reputational and professional activity on stock market risk management system includes:

- definition of basic principles of risk;
- identification, accounting and description of risks separately for each type of risk;
- risk assessment and control (monitoring) of the level of risks;
- measures to reduce (minimize) risks and eliminate the negative consequences of the implementation of risks, including the procedure and sources of funding for measures to compensate for losses;
- formation of the Bank's management structure, development of internal rules, procedures and technologies taking into account the basic principles of risk management adopted by the Bank.

Note 32. Capital management

The Bank's purpose in capital management is to ensure: compliance with capital requirements set by the National Bank of Ukraine and cover the negative effects of the crisis. In order to determine the level of capital, the Bank assesses the level of regulatory capital and capital adequacy ratios. Regulatory capital is one of the most important indicators of banks' activity, the main purpose of which is to cover the negative consequences of various risks that the Bank assumes in the course of its activities, and to ensure deposit protection, financial stability and stable operation of the Bank.

Regulatory capital structure

	December 31 2022	December 31 2021
<u>Common equity</u>		
the registered authorized capital actually paid	200 080	200 080
Reserve and other funds of the bank	11 647	11 125
Decrease in common equity:		
intangible assets less depreciation	(1 762)	(1 448)
capital investments in intangible assets	-	-
Common equity (tier1 capital)	209 965	209 757
<u>Additional capital:</u>		
reserves for standard debt	-	-
estimated current year profit	3 555	10 455
Uncollected accrued income less provisions	(230)	(276)
retained earnings of previous years	29 394	19 461
Additional capital (tier 2 capital)	32 719	29 640
Regulatory adjustments	(1 001)	(1 000)
Total regulatory capital	241 683	238 397
Regulatory capital adequacy ratio (N2) (not less than 10%)	52,48	37,36

The data given in the table take into account the corrective postings as of 01.01.2023. The regulatory capital adequacy ratio (solvency ratio) reflects the Bank's ability to settle its liabilities arising from trade, credit or other monetary transactions in a timely manner and in full. The higher the value of the regulatory capital adequacy ratio, the greater the share of risk assumed by the Bank's owners; and vice versa: the lower the value of the indicator, the greater the risk assumed by creditors / depositors of the Bank. The regulatory capital adequacy ratio is set to prevent excessive transfer of credit risk by the bank and the risk of non-return of bank assets to creditors / depositors of the Bank.

Each year, the ALMC 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 maintain capital adequacy in accordance with the regulatory requirements of the National Bank of Ukraine. Due to the Bank's effective capital management policy, in 2022 the Bank complied with capital requirements.

(in UAH thousand)

Note 33. Commitments and contingencies**Table 33.1. Structure of lending commitments**

	As at 31 December 2022	As at 31 December 2021
Lending commitments issued	-	115 333
Guarantees issued	3 895	3 092
Provisions for lending commitments	(109)	(87)
Total lending commitments less provisions	3 786	118 338

Table 33.2. Structure of lending commitments by currencies

	December 31 2022	December 31 2021
UAH	-	115 333
EUR	3 786	3 005
Total	3 786	118 338

As at 31 December 2022 the Bank had no signed agreements of non-cancellable leases and cases pending in courts.

(in UAH thousand)

Note 34. Fair value of financial instruments

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

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

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

As at 31 December 2022, securities carried at fair value through other comprehensive income, derivative financial assets and derivative financial liabilities are carried at fair value.

The bank considers the fair value of such high liquidity assets/liabilities, such as cash and equivalents; short-term funds raised/placed, may be equal to their balance value

Information on financial assets in the Bank's balance as at 31 December 2022 that are carried at fair value is set out below:

		Fair value by various valuation methods			Total	Carrying amount
Date of assessment		Market quotations (level 1)	Valuation method using observable data (level 2)	Valuation method using indicators not supported by observable market data (level 3)		
Assets		-	-	-		
Cash and cash equivalents	31.12.2022	564 280	-	-	564 280	564 280
Securities in the bank's portfolio carried at fair value through other comprehensive income	31.12.2022	297 119	-	-	297 119	297 119
Financial assets carried at fair value through profit or loss	31.12.2022	-	-	-	-	-
Liabilities		-	-	-		
Financial liabilities at fair value through profit or loss	31.12.2022	-	-	1 190	1 190	1 190

(in UAH thousand)

Note 34. Fair value of financial instruments (continued)

Table 34.2 Information on financial assets in the Bank's balance as at 31 December 2021 that are carried at fair value is set out below:

			Fair value by various valuation methods			Total	Carrying amount
			Market quotations (level 1)	Valuation method using observable data (level 2)	Valuation method using indicators not supported by observable market data (level 3)		
Date of assessment							
Assets			-	-	-		
Cash and cash equivalents	31.12.2021		168 623	-	-	168 623	168 623
Securities in the bank's portfolio carried at fair value through other comprehensive income	31.12.2021		1 819 403	-	-	1 819 403	1 819 403
Financial assets carried at fair value through profit or loss	31.12.2021		-	-	210	210	210
Liabilities							
Financial liabilities at fair value through profit or loss	31.12.2021		-	-	3 887	3 887	3 887

Note 35. Presentation of financial instruments by valuation category

Table 35.1. Financial assets by valuation categories for 2022

	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	564 280	-	-	564 280
Loans and due from customers	39 137	-	-	39 137
- loans to legal entities	33 215	-	-	33 215
- loans to individuals	5 922	-	-	5 922
Investments in securities	8 480 675	297 119	-	8 777 794
Total financial assets	9 084 092	297 119	-	9 381 211

Table 35.2. Financial liabilities by valuation categories for 2022

	Financial liabilities that at amortized cost	Financial liabilities at fair value through profit / loss		Total
		financial liabilities that are initially recognized at fair value through profit or loss	financial liabilities held for trade	
Due to banks	-	-	-	-
Due to customers	9 099 111	-	-	9 099 111
Debt securities issued by the bank	7 170	-	-	7 170
Other funds raised	39 050	-	-	39 050
Derivative financial liabilities	-	1 190	-	1 190
Other financial liabilities	1	-	-	1
Provisions for liabilities	109	-	-	109
Total financial liabilities	9 145 441	1 190	-	9 146 631

(in UAH thousand)

Table 35.3. Financial assets by valuation categories for 2021

	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	168 623	-	-	168 623
Loans and due from banks:	108 137	-	-	108 137
- funds of other banks in settlements	4 092	-	-	4 092
- loans from banks	104 045	-	-	104 045
Loans and due from customers:	69 977	-	-	69 977
- loans to legal entities	58 092	-	-	58 092
- loans to individuals	11 885	-	-	11 885
Investments in securities	142 614	1 819 403	-	1 962 017
Derivative financial assets	-	-	210	210
Other financial assets:	1 533	-	-	1 533
- receivables from foreign currency transactions	321	-	-	321
- accrued income for services	1 212	-	-	1 212
Total financial assets	490 884	1 819 403	210	2 310 497

Table 35.4. Financial liabilities by valuation categories for 2021

	Financial liabilities that at amortized cost	Financial liabilities at fair value through profit / loss		Total
		financial liabilities that are initially recognized at fair value through profit or loss	financial liabilities held for trade	
Due to banks	1 189 996	-	-	1 189 996
Due to customers	820 386	-	-	820 386
Debt securities, issued by the Bank	26 226	-	-	26 226
Other funds raised	31 001	-	-	31 001
Derivative financial liabilities	-	3 887	-	3 887
Other financial liabilities	1	-	-	1
Provisions for liabilities	87	-	-	87
Total financial liabilities	2 067 697	3 887	-	2 071 584

Note 36. Related party transactions**Table 36.1 Balances on related party transactions for 2022**

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
Loans and to due from customers	-	-	3 041	-
Provisions for impairment of loans	-	-	(76)	-
Due to customers (contractual interest rate depending on currency and product	428 154	8 069 985	1 701	2 035
Other funds raised	39 050	-	-	-

Table 36.2. Revenues and expenses from related party transactions for 2022

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
Interest income	-	-	513	-
Interest expenses	(1 089)	(6 931)	(120)	(34)
Commission income	8	805	8	254
Net loss on impairment of financial assets	-	-	(30)	-
Other operating income	-	47	-	214
Administrative and other costs	-	(293)	-	-
Short-term reward	-	-	(594 571)	-

* Key management personnel members of the Supervisory Board and the Management Board of the Bank

Table 36.3. The total amount of loans granted to related parties and repaid by related parties during 2022

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
The amount of loans granted to related parties during the period	-	-	-	-
Total	-	-	-	-

During 2022 Bank carried out third party transactions on general conditions

(in UAH thousand)

Note 36. Related party transactions**Table 36.4 Balances on related party transactions for 2021**

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
Due to customers (contractual interest rate depending on currency and product)	-	-	3 038	-
Other funds raised	3 073	241 944	552	403
Due to customers (contractual interest rate depending on currency and product)	31 002	-	-	-

Table 36.5. Revenues and expenses from related party transactions for 2021

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
Interest income	-	-	140	-
Interest expenses	(269)	(7 950)	(104)	(13)
Commission income	37	674	9	14
Net loss on impairment of financial assets	-	-	(47)	-
Other operating income	-	15	-	-
Administrative and other expenses	-	-	-	-
Short-term reward			(12 624)	

* Key management personnel members of the Supervisory Board and the Management Board of the Bank

Table 36.6. The total amount of loans granted to related parties and repaid by related parties during 2021

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
The amount of loans repaid by related parties during the period	-	-	3 000	-
Total	-	-	3 000	-

During 2021 Bank carried out third party transactions on general conditions

Note 37. Subsequent events

Because of the full-scale military aggression of Russia against Ukraine, based on the proposal by National Security and Defense Council of Ukraine, President of Ukraine signed the laws on the extension of the Martial law on February 11, 2023 and on General Mobilization on February 19, 2023 for 90 days (till May 20th of 2023).

Unpredictability of further military changes does not allow to accurately evaluate the share of clients that will be able to make payments on loans as normal and the timeframe of that. However, even under favorable conditions losses for banks will be significant.

Considering the situation, management of the Bank conducts everyday operational monitoring of activities and ensures the quick response to current events and change of situation. Assessing the situation, management of the Bank evaluates possible losses both lower than industry average and those, that won't have an effect on banks going concern.

Bank plans to continue to stick to requirements set by National Bank of Ukraine regarding the set values of economic standards, share capital and regulatory capital.

There were no other events that may be material to users of the Bank's financial statements after the reporting date.

February 24 2023

Chairperson of the Board

_____/S. Korchynska /

Chief Accountant

_____/N. Derkachenko/

FREE TRANSLATION FROM THE UKRAINIAN ORIGINAL

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of "BANK AVANGARD", JSC

Report on the Audit of the Financial Statements

Opinion

We have conducted audit of financial statements of JOINT STOCK COMPANY "BANK AVANGARD" (the Bank), which comprise The statement of financial position as at December 31, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the accompanying financial statements, presents fairly, in all material respects, the financial position of the Bank as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and meets the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" regarding the preparation of financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).

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

Key Audit Matters

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

Key Audit Matter

Provision for loan impairment (Note 8)

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

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

How the Key Audit Matter Was Considered in Our Audit

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

valuation of the provision for impairment as the key matter of the audit.

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

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

We provide the Supervisory Board with information about the planned scope and timing of the audit and significant audit results, including any significant deficiencies in internal control measures identified by us during the audit.

We also acknowledge to the Supervisory Board that we have complied with the relevant ethical requirements for independence, and inform them of any relationship and other matters that may reasonably be considered to affect our independence and, where applicable, of appropriate safeguards.

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

Report on the requirements of other laws and regulations

Law of Ukraine "On Audit of Financial Statements and Auditing Activities"

In accordance with the Law of Ukraine "On Auditing Financial Statements and Auditing Activities", auditors must provide additional information and assurances.

Basic information about the audit firm

Full name	AC «CROWE UKRAINE»
Location	Obolonska Naberezhna 33, Kyiv, 04210 Ukraine
Information on inclusion in the Register of audit firms and auditors	Registration number in the Register of Auditors and Audit Entities 3681 An auditing entity that has the right to conduct a statutory audit of financial statements An auditing entity that has the right to conduct a statutory audit of the financial statements of public interest entities
Name of the body that appointed the auditing entity to conduct the statutory audit	Supervisory Board of the Bank
Date of appointment of the audit entity	30.09.2022 (Minute of the meeting of the Supervisory Board №9)
Duration of the audit task	3rd year

The audit report is consistent with the supplementary report for the Supervisory Board.

We did not provide non-audit services defined by Article 6 of the Law of Ukraine "On audit of financial statements and auditing".

The key audit partner and audit firm are independent of the Bank in conducting the audit.

We did not provide services other than statutory audit services and services disclosed in the management report or financial statements in the period covered by the financial statements and during the audit of the financial statements.

ISAs require the auditor to plan and perform the audit to obtain reasonable assurance about whether the

financial statements are free of material misstatement. The term "sufficient certainty" allows for some risk of significant monetary inconsistencies that may remain undetected; it is also assumed that the auditor cannot provide an absolute guarantee of the accuracy and completeness of the financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The terms of the ISAs require that the audit be planned in such a way as to ensure that errors and inconsistencies that could materially affect the financial statements are sufficiently probable. However, because the auditor will not audit all transactions performed by the entity during the year, the audit may not provide complete assurance that errors and inconsistencies, including fraud, will be identified.

The partner in the audit engagement that results in this independent auditor's report is Vitaliy HAVRYSH.

For and on behalf of AC CROWE UKRAINE

Partner /
Audit Director

Registered Auditor #100594

Kyiv, Ukraine

February 24, 2023



Vitaliy HAVRYSH