

**Rating report AVNG 001-012 short
on the update of the credit rating**

Rated entity:	JSC BANK AVANGARD
Rating Type:	long-term credit rating according to the National Rating Scale
Rating action:	update
Assessment date:	21 February 2014
Date of updating:	7 February 2019
Credit rating assigned:	uaAAA
Forecast	stable

The rating assigned based on the results of the rating analysis was determined as per the National Rating Scale, as evidenced by the “ua” letters contained in the credit rating symbol. The National Credit Rating Scale enables measuring credit risks allocation throughout the economy of Ukraine without taking into consideration sovereign risks and is intended to be used by securities issuers, borrowers, financial institutions, brokers and investors on the financial market of Ukraine.

For the purposes of the rating procedure, *Credit-Rating Agency* used the financial statements of JSC BANK AVANGARD for the 2017-2018, as well as internal information furnished by the Bank during the rating process.

The credit rating is based on the data provided by the rated entity, as well as on any other presumably reliable information available to the rating agency. The level of the credit rating depends on the quality, homogeneousness and exhaustiveness of the information available to the credit agency. The credit agency has examined information related to all material aspects of the Bank's business. Figures from the balance sheet and profit and loss (financial result) statement are given in the Annexes to this rating report.

The rating agency does not audit the information furnished by the client.

Provisions in the report on development trends of the markets on which the client operates, and risks inherent in such markets rest on market conditions and factors that were effective as of the time of the report.

This rating report does not constitute a recommendation to purchase or to sell any securities. Credit-Rating Agency LLC shall not be liable for any consequences of credit, investment or business decisions taken by any third persons solely relying on the contents of this report.

Some quantitative data analyzed in the report are presented after appropriate rounding. In view of this, values of certain indicators referred to in the report more than once may not coincide and the summary values of certain indicators may not conform to the arithmetic sum of their components.

Current rating determination

A borrower or an individual debt instrument rated uaAAA is characterized by the highest creditworthiness as compared to other Ukrainian borrowers or debt instruments.

A stable outlook points out that, for the time being, there are no preconditions for changing the credit rating during the year.

Rating history

History of the credit rating of JSC BANK AVANGARD

Date:	21 February 2014	17 July 2014	26 February 2015	28 July 2015	04 February 2016	7 February 2019
Credit rating index:	uaA	uaA	uaAA	uaAA	uaAAA	uaAAA
Forecast:	evolving	stable	stable	positive	stable	stable
Rating action:	definitions	confirmation, with outlook modified	increase	confirmation, with outlook modified	upgrading, with outlook modified	acknowledgment

The level of the credit rating of JSC BANK AVANGARD is supported by:

- membership in the ICU group, which holds leading positions on the financial and stock markets of Ukraine;
- high level of capitalization;
- funds attracted from related parties;
- high quality of assets.

Key financial indicators of JSC BANK AVANGARD

Indicator	1 January 2015	1 January 2016	1 January 2017	1 January 2018	1 April 2018	1 July 2018	1 October 2018	1 January 2019
Assets, UAH mln	441.37	456.54	1,332.94	1,355.11	1,382.90	1667.33	1608.11	934.04
Credit and investment portfolio adjusted by reserves, UAH mln	380.67	288.89	932.17	1244.85	1258.01	1492.87	1220.13	857.29
Clients' funds, UAH mln	191.82	273.93	1012.47	849.13	1048.36	1297.86	1229.44	584.45
Equity capital, UAH mln	137.74	164.40	213.05	311.14	316.00	340.09	346.66	322.21
Income, mln UAH	91.68	169.65	148.34	166.53	33.46	85.71	140.39	176.98
Expenses, mln UAH	77.32	142.54	99.78	66.24	30.74	67.76	106.22	166.52
Net operating income, mln UAH	77.08	146.31	87.98	103.31	13.41	48.21	92.31	103.23
Profit before tax, UAH million	18.14	33.10	59.24	122.31	4.71	21.91	41.70	12.77
Net profit, mln UAH	14.36 ¹	27.11 ²	48.56 ³	100.29 ⁴	2.72	17.95	34.18	10.47
ROA*, %	3.25	5.94	3.64	7.40	-	-	-	1.12
ROE*, %	10.43	16.49	22.79	32.23	-	-	-	3.25

1 financial result acknowledged by the auditor's opinion prepared under IFRS – 15.1 UAH million

2 financial result acknowledged by the auditor's opinion prepared under IFRS – 27.28 UAH million

3 financial result acknowledged by the auditor's opinion prepared under IFRS – 48.48 UAH million

4 financial result acknowledged by the auditor's opinion prepared under IFRS – 100.29 UAH million

*As of the reporting date

Summary

JOINT STOCK COMPANY BANK AVANGARD (hereinafter - JSC BANK AVANGARD or the Bank) has been operating on the domestic market since 2013. The Bank carries out its operations in compliance with the effective legislation and its licenses. The Bank is located at 3 Sholudenka Str., Kyiv, 04116,

JSC BANK AVANGARD offers a wide range of banking services and products and is focused on forex, money and securities market both at the expense of its own capital and using its customers' deposits. Based on the results of domestic government bonds trading, the Bank is among the top 5 biggest market operators.

In 2018, the Bank reaffirmed compliance of its procedures with the international standards prescribed by ISO 9001 (quality management system standards) and ISO 27001 (information security management standards). The Bank expects to implement an on-going concern management system in compliance with ISO 22301 by the end of 2021. In 2019-2021, the Bank will adopt in its operations anticorruption procedures in compliance with ISO 37001.

The Bank does not have branches or remote structural units. Customer service activity is concentrated in the Bank's Head Office.

The Bank is a responsible member of the Investment Capital Ukraine (ICU) group of companies established in June 2006. Apart from the Bank, ICU's current members include: LLC Investment Capital Ukraine, LLC KUA Investment Capital Ukraine, LLC KUA APF Troika Dialog Ukraine, JSC ZNKIF INVESTMENT CAPITAL - STABLE GROWTH, Non-Commercial Company Open Pension Fund Dynasty, JSC ZNVKIF Vidnovlennia, LLC KUA Spilna Invest, ZNVKIF Infinity Profit, JSC ZNVKIF Adventura.

The ICU group provides services related to the securities trading, investment and banking services, and manages assets for joint investment institutions. Services offered for corporate, institutional and private customers include dealings in shares and bonds market, attraction of debt and share capital, merger and acquisition transactions, analytical support, structural services and derivative instruments.

In 2017, ICU Group, the largest broker and dealer operating on the government bonds market, reaffirmed its leadership on the Ukrainian T-bills market, having increased its market share to 35.85% and 37.56% in terms of volume and quantity of transactions, respectively.

Based on the results of its activity in the area of retirement assets management during 2017, ICU Group became a leader of the private pension funds market. In particular, retirement assets managed by the Group grew 163% to 406.5 UAH million, and the number of the pension funds participants exceeded 116 thousand persons.

As at 1 January of the current year, 100% of the Bank's shares are in the ownership of Cyprian Westal Holdings controlled by ICU Group. The Bank's major shareholders who indirectly own shares in the statutory capital are: ICU Holdings Limited (British Virgin Islands) - 100% and individuals Mr. Kostiantyn Stetsenko (41.7095%) and Mr. Makar Paseniuk (41.7095%).

The Bank finances its asset management transactions using both borrowed funds and its own funds. Equity quality - adequate, level of capitalization - high. Based on the results of evaluation of the banks stability carried out by the NBU in 2018, it appears that JSC BANK AVANGARD

did not experience any shortages of capital during the period under review. The 2015-2024 Recapitalization Plan of JSC BANK AVANGARD provided for increasing the authorized capital by reinvesting dividends and additional contributions from shareholders. In pursuance of this plan, the authorized capital was increased by UAH 46.12 mln in the first half of 2017, and by UAH 91.62 mln in the first half of 2018.

JSC BANK AVANGARD has an adequate quality of its resource base. At the beginning of the current year, the Bank's liabilities were represented by the amounts due to customers. Customer portfolio is comprised mostly of the funds due to corporate customers. Transactions with individuals are mostly processed in packages.

Low-profile customer base and specifics of operations of the financial institution cause fluctuations of the reported amounts due to customers. Concentration of the resource base appears to be of particular importance for the Bank during the period under review. Moreover, amounts due to corporate customers are diversified by types of economic activity. Despite the prevalence of the funds on the customers' current accounts, on the background of concentration of liabilities by the key creditors, the lack of the regional network, the insignificant number of customers and the predictability of their cash flows are offsetting the Bank's sensibility to its liquidity risk.

JSC BANK AVANGARD has an adequate quality of its assets. Highly liquid assets have remained the key component of the Bank's assets. During the period under review, customers' loan portfolio demonstrated a positive movement, although currently it accounts for only about one fifth of the assets.

Lending transactions with the customers are processed in packages. The loan portfolio remains concentrated by the key borrowers. At the same time, loans issued to corporate customers are diversified by types of economic activity. The currency structure of the customers' loan portfolio has been changing during the period under review. At the beginning of the current year, 40% of the portfolio was denominated in convertible currencies. To offset the Bank's sensitivity to its risks, the debt denominated in the convertible currencies is secured by the property rights to the monies denominated in the same currencies.

The Bank's loan portfolio is free from any substandard receivables. The customer loan portfolio coverage by loss provisions exceeds 21%.

Highly liquid assets are mostly represented by the Ukrainian treasury bills and by the NBU's deposit certificates. Funds on NOSTRO accounts are placed with resident banks.

Assets and liabilities of JSC BANK AVANGARD are not balanced in light of maturities, but the liquidity gap is positive.

The ratio of the administrative costs and total income was low and the operations efficiency was high during 2017. The significant growth of the administrative costs during the past year was attributable to the higher personnel maintenance costs, which cannot be treated as evidence of deterioration of the financial position or the operational efficiency. The Bank has demonstrated a positive financial result during the period under review.

Related party transactions are predominantly attributable to the resources attraction activity.

The Bank demonstrates a solid viability reserve in light of all NBU statutory ratios. The risk of non-compliance with the regulatory ratios resulting in potential adverse implications is remote.

Moreover, in view of the fact that the difficult economic situation continues and the banking laws are frequently changing, the risk control will remain relevant to the Bank.

JSC BANK AVANGARD encounters risks common for any banking system. Nevertheless, the vulnerability of the banking system to individual risks is assessed on a case by case basis based on the internal organization model, pattern of operations of the Bank on specific markets, assets and liabilities management activity, as well as on the quality of deposits and stability of equity and liabilities. Currently, the Bank's sensitivity to individual risks is moderate or low.

The Bank does not have any projects of mergers and acquisitions with other banking institutions and does not intend to implement joint projects with other banks.

The Bank is established under a specific concept and is oriented to using extensive expertise relating to the scope of its activities to maximize the operating efficiency due to pricing competition and high technology. Today, the Bank's key lines of business are as follows: dealings in securities, active operations on the interbank loans market, transactions on forex market. It is the Bank's intention to acquire the status of the principal Ukrainian T-bills dealer of the Ministry of Finance of Ukraine.

The strategic development plan of JSC BANK AVANGARD is regularly revised and adjusted taking into account the changes in the banking market environment and evolvement of the economic standing of Ukraine. During the current year, the Bank intends to expand the customer base and to continue to attract customer deposits; to actively engage in the interbank market operations and to pursue a conservative policy of lending to corporate customers. Notwithstanding changes in the market condition, the Bank intends to reduce the size of its securities portfolio and to offer new products focusing on higher fees and commission income. To engage customers and to promote its products, the Bank plans to improve efficiency of all sales channels and to streamline all operational procedures.

Conclusion

Based on the analysis results, the credit rating of JSC BANK AVANGARD is confirmed as uaAAA with stable outlook.

Chairman of Rating Committee

M. B. Protsenko

Head of Unit of Banking Institutions Rating

G. P. Vynnyk

Annexes

JSC BANK AVANGARD balance sheet figures, UAH million

Indicator	1 January 2015	1 January 2016	1 January 2017	1 January 2018	1 April 2018	1 July 2018	1 October 2018	1 January 2019
Assets								
Cash on hand, banking metals and balances with the NBU	22.56	4.70	31.13	25.20	78.17	35.55	59.73	15.52
T-bills and other securities (NBU)	49.51	51.00	671.71	917.65	1004.99	1277.82	940.07	682.73
Due from banks	405.21	521.27	698.98	304.45	141.55	182.27	508.03	55.03
Loans to customers	0.00	7.72	48.73	133.25	146.10	146.72	158.65	192.52
Securities	0.00	0.00	0.00	26.82	35.62	48.63	0.00	0.00
Long-term investments	3.62	3.04	2.05	1.90	2.04	2.09	2.01	1.94
Income accrued	1.95	3.15	21.85	42.03	36.12	44.47	25.71	24.94
Provisions	-42.02	-138.53	-144.07	-98.58	-64.25	-74.78	-92.01	-55.89
Other assets	0.53	4.20	2.57	2.38	2.57	4.57	5.92	17.25
Total assets	441.37	456.54	1332.94	1355.11	1,382.90	1667.33	1608.11	934.04
Liabilities								
Debt to the NBU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due to banks	98.25	0.00	86.15	171.28	0.00	0.00	0.00	0.00
Budgetary and extra-budgetary funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due to business entities	186.61	264.39	1003.81	791.12	961.00	1211.78	1136.12	494.21
Due to individuals	5.22	9.55	8.66	58.01	87.36	86.08	93.33	90.24
Loans from international and other financial institutions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subordinated debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accrued expenses	0.68	1.05	7.92	3.57	4.10	2.19	2.33	2.43
Other liabilities	12.88	17.16	13.34	19.98	14.44	27.19	29.67	24.94
Total liabilities	303.64	292.14	1119.89	1043.97	1066.90	1327.24	1261.44	611.82
Equity								
Paid-in share capital	122.00	136.52	162.38	208.50	300.12	300.12	300.12	300.12
Total provisions, share premium and other funds of the Bank	0.01	0.77	2.13	4.56	9.58	9.58	9.58	9.58
Earnings of the previous years	0.18	0.00	0.06	0.07	3.73	3.72	3.72	3.72
Result of revaluation	1.19	0.00	-0.08	-2.28	-0.15	8.72	-0.94	-1.67
Financial result of the current year	14.36	27.11	48.56	100.29	2.72	17.95	34.18	10.47
Total equity	137.74	164.40	213.05	311.14	316.00	340.09	346.66	322.21

JSC BANK AVANGARD - statement of operations, UAH million

Indicator	1 January 2015	1 January 2016	1 January 2017	1 January 2018	1 April 2018	1 July 2018	1 October 2018	1 January 2019
Income								
Interest income	49.09	65.41	92.50	127.00	41.84	89.93	140.20	172.75
Commission income	1.12	1.53	8.31	11.50	3.96	6.53	9.40	13.42
Trade transactions result	80.35	99.89	42.19	26.76	-10.93	-8.12	-13.01	-15.52
Other operating income	-38.87	2.83	5.35	1.27	-1.41	-2.62	3.80	6.34
Other income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Recovery of assets previously written off	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total income	91.68	169.65	148.34	166.53	33.46	85.71	140.39	176.98
Expenses								
Interest expenses	13.74	20.92	53.73	60.75	15.96	32.40	40.39	49.65
Commission expenses	0.13	1.37	1.85	0.83	0.43	0.72	1.14	1.71
Other operating expenses	0.73	1.05	4.78	1.64	3.66	4.39	6.55	22.40
General administrative expenses	17.28	16.54	23.14	26.56	43.01	50.10	57.21	133.14
Contributions to reserves	41.66	96.67	5.61	-45.56	-34.31	-23.80	-6.60	-42.69
Profit tax	3.78	5.99	10.68	22.02	1.99	3.96	7.53	2.31
Total costs	77.32	142.54	99.78	66.24	30.74	67.76	106.22	166.52
Financial result	14.36	27.11	48.56	100.29	2.72	17.95	34.18	10.47