**PUBLIC JOINT STOCK COMPANY**
**BANK FOR INVESTMENTS AND SAVINGS**

# Annual financial statements for the year ended 31 December 2016 and independent auditor's report

*Translated from Ukrainian original*

## CONTENTS

## Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2016

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the attached independent auditors' report, is made to distinguish the respective responsibilities of management and those of the independent auditors in relation to the financial statements of PUBLIC JOINT STOCK COMPANY *BANK FOR INVESTMENTS AND SAVINGS* (hereinafter – the Bank).

Management is responsible for the preparation of the financial statements that present fairly, in all material aspects, the financial position of the Bank at 31 December 2016 and the results of its operations, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (hereinafter – IFRS).

In preparing the financial statements, management is responsible for:

- proper selection and consistent application of accounting policies;
- making reasonable assumptions and estimates;
- compliance with relevant IFRS or disclosure and explanation of all material departures in the Financial statements;
- preparation of the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in operations for the foreseeable future.

The Bank management is responsible for:

- design, implementation and maintenance of an effective and sound internal control system in the Bank;
- maintaining appropriate accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and help to ensure that the financial statements of the Bank comply with IFRS;
- ensuring compliance of financial accounting with legal requirements and accounting standards applicable in Ukraine;
- application of reasonable efforts to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2016 were approved by the Bank's management and authorized for issue:

14 April 2017

Україна «Банк інвестицій та заощаджень» Ідентифікаційний код 33695095

Chairman of the Board O. V. Omelchenko

Chief Accountant T.O. Verba

# INDEPENDENT AUDITOR'S REPORT

***To the:***

***Shareholders and Management Board of PJSC "BANK FOR INVESTMENTS AND SAVINGS"***

## OPINION

We have audited the accompanying financial statements of PJSC "BANK FOR INVESTMENTS AND SAVINGS" (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. Summary of significant accounting policies and the other notes have not been included in this copy of financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the 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 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

### Impairment of Loans and Receivables

Impairment allowances represent Management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. The audit was focused on impairment due to the materiality of the loan balances (which account for 95% of total assets) and the subjective nature of the impairment calculation.

We refer to the financial statements Note 4 for information on principal accounting policies, notes 8, 30 and 33 for disclosures.

The controls management has established to support their collective and specific impairment calculations were tested. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, segmentation, economic factors and judgemental overlays and the valuation of recovery assets and collateral.

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For specific allowances, the appropriateness of provisioning methodologies and policies was assessed for a sample of loans across the portfolio selected based on risk. An independent view was formed on the detailed loan and counterparty information in the credit file. Calculations within a sample of discounted cash flow models were reperformed.

**Related party operations and regulatory requirements**

Related party identification and recognition is based on judgmental assumptions of management of the Bank due to the multifactorial nature of control and influence, that determine status of related parties. We consider this are as key audit matter as the Bank has significant balances with related parties as at reporting date and the subjective nature of the identification and recognition of related parties.

As at reporting date the Bank was in breach of related party transactions exposure limit (H9), that is subject of regulation by National Bank of Ukraine, and the Bank subsequently agreed with the National Bank of Ukraine Action Plan for bringing the Bank's operations to conformity to the legal requirements and the requirements of the NBU regulations of related party transactions.

We refer to the financial statements Note 4 for information on principal accounting policies, notes 31 and 33 for disclosures

We critically evaluated Bank's approach and methodology to identification of related parties in accordance with regulation of National bank of Ukraine and in accordance with IAS 24 Related Party Disclosures. We evaluated Bank's assessment in respect of disclosure of balances and operations with related parties in these financial statements and whether the Bank complies with regulatory requirements of National Bank of Ukraine and with agreed with the National Bank of Ukraine Action Plan for bringing the Bank's operations to conformity to the legal requirements and the requirements of the NBU regulations of related party transactions.

**Responsibilities of Management and the Supervisory Board for the Financial Statements**

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

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

The Supervisory Board are responsible for overseeing the Bank's financial reporting process.

**Emphasis of Matter**

We draw attention to Note 4, which discloses regarding calculation of allowance for loan impairment, that accounting estimate related to determination of allowance for loan impairment is a major source of estimation uncertainty because allowances for impairment losses in the financial statements were determined based on existing economic and political conditions. The Bank is not able to predict changes in the economic and political situation that will take place in Ukraine and what effect they might have on the adequacy of allowances for losses in future periods. Our opinion is not modified in respect of this matter.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's 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 Banks'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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the 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.

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

Director of AF "PKF Audit-finance" LLC — I.O. Kashtanova

Director of Audit for Banks AF "PKF Audit-finance" LLC — S.V. Biloblovskiy

*(Audit certificate No. 0072 issued by the Audit Chamber of Ukraine)*

21 April 2017
Kyiv, Ukraine

## Statement of financial position
### as at 31 December 2016

| Item | Notes | Reporting period | Previous period |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | 396,620 | 355,086 |
| Due from other banks | 7 | - | - |
| Loans to customers | 8 | 4,143,086 | 5,055,856 |
| Current income tax receivable | | 326 | 47 |
| Deferred tax assets | 26 | 123 | - |
| Property, equipment and intangible assets | 10 | 22,511 | 23,901 |
| Other financial assets | 11 | 16,859 | 9,904 |
| Other assets | 12 | 959 | 937 |
| **Total assets** | | **4,580,484** | **5,445,731** |
| **LIABILITIES** | | | |
| Due to banks | 13 | 9 | - |
| Due to clients | 14 | 3,529,618 | 4,466,818 |
| Debt securities in issue | 15 | 118,028 | 32,978 |
| Other borrowings | 16 | 372,253 | 386,590 |
| Current income tax payable | 26 | - | 239 |
| Deferred tax liabilities | 26 | - | 80 |
| Provisions for liabilities | 17 | 1,074 | 907 |
| Other financial liabilities | 18 | 9,662 | 4,359 |
| Other liabilities | 19 | 8,858 | 9,691 |
| **Total liabilities** | | **4,039,502** | **4,901,662** |
| **EQUITY** | | | |
| Share capital | 20 | 500,000 | 500,000 |
| Reserves and other funds | 20 | 33,200 | 34,634 |
| Retained earnings | | 7,782 | 9,435 |
| **Total equity** | | **540,982** | **544,069** |
| **Total liabilities and equity** | | **4,580,484** | **5,445,731** |

Signed and authorized for issue

14 April 2017 Chairman of the Board O. V. Omelchenko

N. Yu. Diadiura Chief Accountant T.O. Verba
☎ (044) 207-70-35

## Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

| Item | Notes | Reporting period | Previous period |
|---|---|---|---|
| Interest income | 22 | 538,020 | 600,499 |
| Interest expenses | 22 | (402,202) | (419,288) |
| **Net interest income** | | **135,818** | **181,211** |
| Net increase in allowances for impairment of cash equivalents, due from other banks and due from customers | | (37,147) | (65,338) |
| **Net interest income adjusted for allowances for impairment of loans and due from other banks** | | **98,671** | **115,873** |
| Fee and commission income | 23 | 54,986 | 36,268 |
| Fee and commission expenses | 23 | (7,065) | (5,667) |
| Gains on transactions with the securities in the Bank trading portfolio | | - | 254 |
| (Losses)/gains on trading in derivatives | | (10,310) | 10,899 |
| Gains on trading in foreign currencies | | 8,699 | 56,719 |
| Gains/(losses) on foreign currency revaluation | | 17,824 | (66,961) |
| Net increase in allowances for impairment of accounts receivable and other financial assets | | (927) | (13) |
| Net increase in allowances for impairment of securities available for sale | | - | - |
| Net decrease/(increase) in provisions for liabilities | | (167) | 477 |
| Other operating income | 24 | 941 | 4,243 |
| Administrative and other operating expenses | 25 | (153,604) | (137,562) |
| **Profit before income tax** | | **9,048** | **14,530** |
| Income tax expense | 26 | (1,266) | (3,089) |
| **Profit for the year** | | **7,782** | **11,441** |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | **7,782** | **11,441** |
| | | | |
| Earnings per share (UAH): | 28 | | |
| net earnings per ordinary share | | 15.56 | 22.88 |

Signed and authorized for issue

14 April 2017 Chairman of the Board O. V. Omelchenko

N. Yu. Diadiura Chief Accountant T.O. Verba

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## Statement of changes in equity
## for the year ended 31 December 2016

| Item | Notes | Share capital | Reserves and other funds | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance at 31 December 2015** | | **500,000** | **34,511** | **450** | **534,961** |
| Total comprehensive income | | - | - | 11,441 | 11,441 |
| Profit for the year | | - | - | 11,441 | 11,441 |
| Allocation of profit to reserves and other funds | | - | 123 | (123) | - |
| Dividends | 28 | - | - | (2,333) | (2,333) |
| **Balance at 31 December 2015** | | **500,000** | **34,634** | **9,435** | **544,069** |
| Total comprehensive income | | - | - | | |
| Profit for the year | | - | - | 7,782 | 7,782 |
| Compensation of uncovered losses incurred in previous years | | - | (2,006) | 2,006 | - |
| Allocation of profit to reserves and other funds | | - | 572 | (572) | - |
| Dividends | 28 | - | - | (10,869) | (10,869) |
| **Balance at 31 December 2016** | | **500,000** | **33,200** | **7,782** | **540,982** |

Signed and authorized for issue

14 April 2017 Chairman of the Board O. V. Omelchenko

N. Yu. Diadiura Chief Accountant T.O. Verba

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## Statement on cash flows prepared by indirect method for the year ended 31 December 2016

| Item | Reporting period | Previous period |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit/(loss) before taxation | 9,048 | 14,530 |
| Adjustment for: | | |
| Amortization and depreciation | 2,974 | 3,121 |
| Net increase/(decrease) of allowances for assets impairment | 38,263 | 64,899 |
| Gains/(losses) on transactions with derivatives | - | - |
| Losses on transactions with foreign currencies | (13,703) | (46,698) |
| (Income accrued) | 12,179 | (12,361) |
| Expenses accrued | 18,272 | (14,747) |
| **Net cash income / (loss) from operating activities before changes in operating assets and liabilities** | **67,033** | **8,744** |
| Changes in operating assets and liabilities | | |
| Net (increase)/decrease in mandatory reserves with the National Bank of Ukraine | (1,127) | 6,276 |
| Net (increase)/decrease of due from other banks | - | - |
| Net (increase)/decrease in loans and receivables from customers | 875,489 | (1,523,152) |
| Net (increase)/decrease in other financial assets | (7,712) | 99,967 |
| Net (increase)/decrease in other assets | (22) | (55) |
| Net (increase)/decrease in financial liabilities carried at fair value through profit or loss | - | - |
| Net increase/(decrease) in due to banks | 9 | (44,289) |
| Net increase/(decrease) in customer accounts | (954,596) | 1,099,488 |
| Net increase/(decrease) in debt securities in issue | 83,962 | 32,528 |
| Net increase/(decrease) in provisions for liabilities | 167 | - |
| Net increase/(decrease) in other borrowings | (14,447) | 204,272 |
| Net increase/(decrease) in other financial liabilities | 4,793 | (13) |
| **Net cash generated from/ (used in) operating activities, before income tax** | **53,549** | **(116,234)** |
| Income tax paid | (1,266) | (1,330) |
| **Net cash generated from/ (used in) operating activities** | **52,283** | **(117,564)** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (890) | (2,197) |
| Gain on disposal of property and equipment | - | - |
| Acquisition of intangible assets | (409) | (974) |
| **Net cash received from/ (used in) investing activities** | **(1,299)** | **(3,171)** |

**Statement on cash flows prepared by indirect method**
**for the year ended 31 December 2016 (continued)**

| Item | Reporting period | Previous period |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (10,869) | (2,333) |
| **Net cash received from/ (used in) financing activities** | **(10,869)** | **(2,333)** |
| Net impact of exchange rates changes on cash and cash equivalents | 13,702 | 45,923 |
| Net increase/(decrease) in cash and cash equivalents | 53,817 | (77,145) |
| **Cash and cash equivalents beginning of the period** | **335,443** | **412,588** |
| **Cash and cash equivalents at end of the period** | **389,260** | **335,443** |

Signed and authorized for issue

| | | |
|---|---|---|
| 14 April 2017 | Chairman of the Board | O. V. Omelchenko |
| N. Yu. Diadiura<br>☎ (044) 207-70-35 | Chief Accountant | T.O. Verba |

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## Note 1. Background information

PUBLIC JOINT STOCK COMPANY *BANK FOR INVESTMENTS AND SAVINGS* (hereinafter – the Bank) was registered by the National Bank of Ukraine on 9 August 2005.

The registered address of the Bank is 83D Melnykova Street, Kyiv-04119, Ukraine.

The Bank web-site address is www.bisbank.com.ua.

The reporting period of these financial statements is the year ended 31 December 2016.

These financial statements are prepared as of 31 December 2016 and presented in thousands of hryvnias.

The Bank is a member of the bank system of Ukraine (which included 96 operating banks at the end of 2016), regulated by the National Bank of Ukraine.

The Bank is an independent financial institution which is not a part of any consolidated groups or a subsidiary of any other company. The supreme governance body is the General Meeting of Shareholders of PJSC *BANK FOR INVESTMENTS AND SAVINGS.*

The Bank is an incumbent member of the Deposit Guarantee Fund.

At the end of the year ended 31 December 2016, the Bank employed 247 people (241 people at the end of the year ended 31 December 2015).

As of the reporting date, the regional network of the Bank consists of the Head Office and 22 branches located in most regions in Ukraine.

The strategic goal of the Bank is to create a new quality standard of client-oriented service; to strengthen the Bank's reputation as a stable and reliable Ukrainian bank, to maintain the trend of the dynamic increase in the main financial indicators and to secure high liquidity and solvency.

The Bank provides its services according to license of the National Bank of Ukraine № 221 as of 24 October 2011, and the general license to perform foreign exchange transactions № 221-3 as of 21 June 2013. According to these licenses, the Bank is allowed to enter the following transactions:

1. Attract deposits (funds and precious metals) from a broad customer base of individuals and legal entities.
2. Open and maintain current (correspondent) accounts of clients, including accounts in precious metals.
3. Place deposit funds and precious metals on behalf of the Bank, at its own discretion and risk.
4. Foreign exchange transactions.

Since 2009, the Bank works with the State Mortgage Institution (a public entity) in the mortgage market.

The Bank is not classified as a specialized bank.

Core activities of the Bank include credit and deposit transactions, settling and cash services for clients, foreign exchange transactions, stock transactions, payment card transactions, and documentary transactions. The policy of flexible and tailored approach to every client allows the Bank to expand its client base continuously and attract its clients' funds to deposits (due to the range of client services offered), and also to credit extensively the real economy sector of Ukraine.

The Bank is also active on the interbank market. It uses instruments of the interbank market to attract or place resources promptly and also to perform foreign exchange transactions both for the benefit of its clients and using its own currency position.

For the purpose of international transactions, the Bank established correspondent relations with JSC *PROMSVYAZBANK* (the Russian Federation), PJSC Ukrgasbank, PJSC FUIB etc.

The Bank is the member of SWIFT payment system since 2006. In 2008, the Bank joined Visa International payment system and received from the National Bank of Ukraine a registration certificate that confirms its right to issue Visa International payment cards, and started issuing payment cards of this system, namely, Visa Electron, Visa Classic, Visa Gold, and Visa Platinum.

Following the 2016 results, the Bank was assigned to the group of banks with private equity according to the NBU classification.

At 31 December 2016, the major shareholders of the Bank included the following residents of Ukraine:

- Serhiy Mykolayovych Lahur: 17.5% of share capital (including direct ownership of 17.5%);
- Stepan Petrovych Ivakhiv: 17.5% of share capital (including direct ownership of 17.5%);
- Andriy Volodymyrovich Popov: 15.00% of share capital (including direct ownership of 9.7998% indirect ownership of 5.2002%).
- Petro Petrovych Dyminskiy and Zhanna Petrivna Dyminska: joint ownership of 10.0% of share capital (including 5.67% directly owned by P.P. Dyminskiy and 4.33% directly owned by Zh. P. Dyminska).

Managers of the Bank do not own its shares.

The Bank was not part of any merger, takeover, partition or separation in the reporting year.

On 30 September 2016 *Credit Rating* independent rating agency confirmed the long-term credit rating of PJSC *BANK FOR INVESTMENTS AND SAVINGS* at the level of uaA, an investment level with a stable forecast. The agency also confirmed the bank deposit stability rating of «4» («high reliability»).

The financial statements for the year ended 31 December 2016 were approved by the Chairman of the Board and the Chief Accountant on 14 April 2017.

## Note 2. The economic environment of the Bank operations

In the reporting year, the economic environment demonstrated versatile trends with certain macrostabilisation indicators. The main drives of the economy in the current year were: the situation in the east of Ukraine, unfavourable foreign economic conditions (in the first half of the year, in particular) and a number of internal difficulties in the area of manufacturing and delivery, and psychological issues arising from the capitalisation of *Privatbank* from the state budget. A major role was also played by a generally moderate volatility of the hryvnia's exchange rate, decrease in the consumer inflation, high yield of cereals and improvements in the foreign economic conditions in the last quarter of 2016.

The macroeconomic situation was unfavourable for Ukrainian exporters throughout the year. This improved in the last quarter as a result of the growth in the world prices for steel, iron ore, cereals and fertilisers. Furthermore, export proceeds were growing over the IV quarter due to high yield of cereals and vegetable oil production. However, total annual exports of goods reduced by 5.2% compared to the previous year. Consequently, as a result of the faster growth of imports compared to the growth of exports, the current account deficit increased to USD 3.4 billion (3.6% GDP).
In 2016, the industrial sector resumed its growth after four years of recession. A 2.8% growth of industry compared to the previous year was registered in 2016 (according to preliminary information of the State Statistics Services of Ukraine). Namely, positive changes were demonstrated in the food sector, power and metal industries. Car manufacturing and extraction industries showed negative dynamics.

According to preliminary forecasts of the Ministry of Finance, the GDP of Ukraine grew by 1.8% in 2016.

Consumer price index (inflation index) was 112.4% in 2016 (i.e. the inflation level was 12.4%). This mean inflation has slowed down significantly compared to the previous year (43.3% in 2015).

Gradual recovery in the economy and improvement of expectations of businesses helped to restore the demand for labour force in early 2016. However, the seasonally adjusted level of unemployment, according to the ILO methodology, was growing, which confirms the existence of significant disparities between demand and supply in the labour market. Average monthly wages increased by 23.5% (to UAH 5,183) in the reporting year.

Therefore, in general the dynamics of most macroeconomic indicators in Ukraine demonstrate certain positive triggers. However, in total. The macroeconomic situation remained difficult that had its impact on the banking sector of Ukraine.

According to the NBU, 2016 showed the highest banking losses in the history (UAH 159 billion) resulting from provisioning of *Privatbank's* loan portfolio. Other banks significantly reduced their allocations to allowances and cumulative losses reduced from UAH 66 billion in 2015 to UAH 23 billion in 2016.

Operating efficiency of the banking sector slightly decreased: CIR (cost to income ratio) was 58% compared to 52% 2015. Net interest income reduced due to funding costs that remain high. This was compensated by a slight growth in net fee and commission income resulting from restored demand for banking services and increased fees.

The difficult exosmotic situation and, in particular, the difficulties in the banking system notwithstanding, the financial position of PJSC *BANK FOR INVESTMENTS AND SAVINGS* was stable over the period under review, which is confirmed by favourable dynamics of main financial indicators, a low share of non-performing loans and net profit for the year.

## Note 3. Principles of the financial statement presentation

The financial statements for the year ended 31 December 2016 were prepared by the Bank according to the requirements of the International Financial Reporting Standards (IFRS), which have been adopted and issued by the International Accounting Standards Board (IASB), and explanations published by the IFRS Interpretations Committee (IFRS IC).

The financial statements for the year ended 31 December 2016 were prepared under the assumption that the Bank will continue as a going concern for the foreseeable future. The Bank management and shareholders have the intention to further develop the Bank activities in Ukraine. The Bank management reckons that the going concern assumption is appropriate, taking into the consideration of the level of capital adequacy, the shareholders'' plans to support the Bank, as well as historical experience, which indicates that short-term liabilities will be refinanced in the normal course of business.

***Functional and presentation currencies***

The functional currency of the Bank accounting records and financial statements preparation is Ukrainian hryvnia. Unless stated otherwise, the statements are represented in hryvnias and rounded to thousands. Balances carried at the reporting date in a currency other than the functional currency, are translated into the functional currency at the official exchange rates of foreign currencies.

## Note 4. Accounting policy principles

### Note 4.1. Consolidated financial statements

The Bank is not a member of any group of legal entities where it would be a parent or a subsidiary. The Bank does not present consolidated financial statements for the reporting period.

### Note 4.2. The measurement basis of the financial statements preparation

The bases of measurement of financial instruments are: fair value, cost, amortized cost, and the effective interest rate method.

The fair value of a financial asset is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The initial cost is the amount of cash or cash equivalents paid, or the fair value of other resources given to acquire an asset at the acquisition date, which includes transaction costs. Transaction costs are costs inherent in the operations of the acquisition, issue or disposal of a financial instrument.

The amortized cost of a financial assets or a financial liability is the amount at which the financial asset or financial liability is initially recognised less payments of the principal, increased (reduced) by accumulated amortization of any difference between the amount it initial recognition and the redemption value, calculated using the effective interest rate, reduced by write-downs due to impairment or non-recoverability.

The effective interest rate method is the method of calculating amortized cost of a financial asset or financial liability (or a group of financial assets or financial liabilities) and the allocation of interest income or interest expenses over the relevant period. An effective interest rate is the rate that exactly discounts the expected flow of future cash payments or receipts over the expected life of the financial instrument to the net carrying value (amortized cost) of this instrument.

The Bank's accounting policies on recognition and measurement of specific assets and liabilities, income and expenses are disclosed in the accompanying notes hereto.

**Note 4.3. Initial recognition of financial instruments**

Derivatives and other financial instruments at fair value through profit or loss are initially recognized at fair value. All other financial instruments are initially recognized at fair value plus transaction costs. The gain or loss on initial recognition is recognized only if there is a difference between the fair value and the contractual price.

All transactions of purchase or sale of financial assets, which envisage the delivery during a period determined by law or by market traditions (regular purchase and sale), are recognized on a date of settlements, that is the date the Bank supplies the financial asset. All other financial asset purchases are recognized when the Bank become a party to the purchase contract.

**Note 4.4. Impairment of financial assets**

Impairment losses are recognized in profit or loss as they occur as a result of one or more events (loss events) that occurred after the initial recognition of the asset, and that event (or events) impacts on previously estimated future cash flows from the financial asset or the group of financial assets, and the losses can be reliably estimated.

When the Bank determines that there are no objective indicators of impairment of an individually assessed financial asset, that assets in included into a group of financial assets with similar credit risk characteristics and tested for impairment as a group.

The main indicators of asset impairment (loss events) are as follows:

- the borrower experiences material financial difficulties;
- the borrower violates the loan agreement, e.g. refuses to pay of delays payments of interest or principal;
- the Bank grants special conditions, economically or legally related to the borrower’s financial difficulties, which would not be granted otherwise;
- the borrower is bankrupt or subject to reorganization.

Financial assets are classified into material and immaterial assets.

Financial assets that are not individually material include:

- corporate loans with not more than UAH 50 million outstanding on the reporting date, or an equivalent in a foreign currency, determined at the official exchange rate set by the NBU on the allowance date;
- loans to individuals with not more than UAH 0.5 million outstanding on the reporting date, or an equivalent in a foreign currency, determined at the official exchange rate set by the NBU on the allowance date;
- receivables not exceeding UAH 5 million at the reporting, or an equivalent in a foreign currency, determined at the official exchange rate set by the NBU on the allowance date.

All other financial assets are considered as individually material.

If the borrower has at least one individually material financial asset, all other financial assets of that borrower are also recognized as individually material. Financial assets of one debtor that individually are immaterial are recognized as individually immaterial.

Materiality thresholds are reviewed at least once a year.

If there is objective evidence (indicators) of impairment of an individually material financial asset, the Bank determines the amount of impairment loss on an individual basis. The amount of the impairment loss on an individual basis is the difference between the asset's carrying amount and the present value of estimated future cash flows (including cash flows from sales of collateral), discounted at the initial effective interest rate of the asset.

The Bank groups financial assets that are individually immaterial, individually material financial assets that demonstrate no objective evidence of impairment and individually material financial assets, for which an individual assessment discovered no impairment losses, into portfolios of financial assets with similar characteristics and tests them for impairment on a portfolio basis, taking into account its past experience of losses on assets with credit risk characteristics similar to those of the portfolios.

As soon as the objective information becomes available that allows to estimate losses from individual assets in an impaired group (for example, information on an entity bankruptcy, the death of a borrower, a debt being overdue for more than 180 days, etc.), these assets are removed from the group (portfolio) and tested for impairment individually.

The Bank assesses the risk of default by the debtor (counterparty) on its obligations and provides for it in full regardless of the amount of revenues as of the first day of each month following the reporting month.

If, in a subsequent period, the impairment loss is reduced and this reduction can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced either directly or by adjusting the allowance account. This reverse entry should not lead to the carrying amount of the financial asset exceeding its amortized cost, calculated as if the impairment had not been recognized at the date of recovery of impairment. The amount of the reverse entry is recognized in profit or loss. This procedure does not apply to equity instruments. Therefore, if in the following periods after the charge of an allowance for a financial asset the amount of the allowance changes, the Bank accordingly adjusts the previously charged allowance for the asset (except for any reduction of the allowance for shares and other variable income securities carried in the Bank's available-for-sale portfolio).

The amount of the allowance is taken into account for the purposes of recognition of interest income on impaired financial assets.

Interest income on financial assets that are not impaired, is recognized without taking into account the amount of the allowance.

**Note 4.5. Derecognition of financial assets**

The Bank derecognizes a financial asset or a group of financial assets (hereinafter – a financial asset) in the following cases:

- the asset was cancelled or the contractual rights to the cash flows from the asset expired; or
- the Bank transferred the rights to the cash flows from financial assets or entered a transfer agreement and also transferred substantially all the risks and rewards of ownership of the financial asset; or
- the Bank did not transfer and does not retain substantially all the risks and rewards of ownership but did not retain control. Control is retained when the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer.

The Bank derecognizes a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

When an existing financial liability is exchanged for another financial liability from the same lender of debt instruments with substantially different terms, or when the terms of the existing liability are substantially modified, this exchange or modification is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference in the relevant carrying amount is recognised in profit or loss.

**Note 4.6. Cash and cash equivalents**

Cash and cash equivalents are assets that can be converted into cash on first demand and which are subject to an insignificant risk of changes in value. Cash and their equivalents include the cash in hand, in ATMs and computer-based self-service facilities, funds on the correspondent account with the National Bank of Ukraine, NBU deposit certificates, deposits and overnight loans with other banks provided that no credit risk exists.

Cash and cash equivalents a carried at amortised cost.

Balances of the mandatory reserve with the National Bank of Ukraine are carried amortized cost and comprise mandatory reserve deposits, which cannot be used to finance routine operations of the Bank.

Information of cash and cash equivalents is disclosed in Note 6 Cash and cash equivalents.

**Note 4.7. Mandatory reserves with the National Bank of Ukraine**

Mandatory reserves represent a monetary instrument of the money supply regulation and the monetary market management. All funds attracted by the Bank are subject to mandatory reserves except for loans received from resident banks, funds received from international financial organizations and funds that comprise subordinated debt. Mandatory reserves are charged on the basis of the existing reservation requirements to the Bank's obligations with respect to the raised funds.

Mandatory reserve rates are set individually for different types of liabilities depending on:

- the term for which funds are attracted (short-term or long-term liabilities of the Bank);
- the currency of liabilities (national, foreign, including precious metals);
- the customers (legal entities or individuals).

The Bank allocates funds to the mandatory reserves and maintains them in the national currency of Ukraine.

Mandatory reserves are recognized at fair value and subsequently measured at amortized cost using the effective interest rate.

**Note 4.8. Financial assets at fair value through profit or loss**

The financial assets measured at fair value through profit or loss include debt securities, shares and other variable income securities held in the available-for-sale portfolio.

In 2016, the Bank did not perform any transactions with financial assets measured at fair value through profit or loss.

**Note 4.9. Due from other banks**

Due from other banks include deposits with other banks, loans to other banks and repurchase agreements.

Due from other banks is initially measured at cost, which includes the fair value and the costs directly attributable to the financial instrument acquisition. At each subsequent reporting after recognition, these financial instruments are measured at amortized cost.

The Bank records interest income on these financial instruments on interest income accounts using the effective interest rate (hereinafter - EIR). The Bank does not apply the EITR to short-term interbank loans and deposits, namely:

- for loans and overnight deposits, which arise during a month and do not survive the month end;
- for short-term interbank loans and deposits maturing within 30 calendar days and which do not survive the month end.

In the case of loans and overnight deposits, which exist at the month end, and in the case of short-term interbank loans and deposits, issued at market terms and where the periods of interest accrual and payment are the same, the Bank makes a professional judgement according which the EIR is the same as the nominal interest rate. The EIR is calculated for these financial instruments but technical discount is not recorded on unamortised discount or premium accounts.

**Note 4.10. Loans to customers**

Loans to customers are initially recognized at fair value, including transaction costs and other charges attributable to the initiation of the loan. At the reporting date, the loans are carried at amortized cost using the EIR less any recognised impairment loss.

At initial recognition, the Bank records a gain or loss in the amount of the difference between the fair value of a financial asset and the contract value in correspondence with discount (premium) accounts, if the effective interest rate on this instrument is higher or lower than the market rate. The difference between the fair value of a financial asset and contract value on transactions with shareholders is recognized directly in equity and created to retained earnings (accumulated loss) over the life of the financial instrument or at the disposal of thereof.

Interest income on impaired financial assets is recognized with regard to their the carrying amount (including the impairment allowance) using the EIR, which discounts the estimated expected cash flows in the course of testing the financial assets for impairment.

Income interest and expenses at the EIR are recorded on nominal accounts for accrued income and expenses.

During 2016, the Bank provided its clients with guarantees securing the offer and guarantees of contract performance. Financial guarantees provided were initially measured at fair value, which is equal to the amount of fees received (remuneration for the guarantee provided). The fee received for the guarantee is amortized over the life of the guarantee on the straight-line basis.

The Bank restructures credit operations to maintain solvency of its borrowers experiencing difficulties as a result of force majeure, and to reduce credit risk as appropriate, and to secure stability of its operations.

Restructuring is the change of significant terms of an existing agreement by entering into an additional agreement with the borrower as a result of the borrower's financial difficulties (as determined by the Bank) and the need to create favourable conditions for the borrower to meet its obligations (changes in interest rates, cancellation, in full or in part, of accrued financial sanctions (fines or interest) for late payments of debt, changes of the repayment schedules, changes in fees and commissions etc.).

The Bank monitors, on an ongoing basis, renegotiated loans to control the quality of the loan restructuring and the possibility of future payments. These loans continue to further be assessed for impairment.

Information on loans to customers is disclosed in the Statement of financial position and in Note 9 Loans to customers.

**Note 4.11. Financial assets available-for-sale**

In 2016, the Bank did not enter any transactions with financial assets available-for-sale.

**Note 4.12. Securities repurchase agreements**

Repo agreements are agreements to sell (purchase) securities with an obligation for repurchase them after a specified period at a pre-set price assessed on the basis of a single repo agreement.

In 2016, the Bank did not enter any repo transactions.

**Note 4.13. Financial assets held to maturity**

Financial assets held to maturity include fixed or fixable payment debt securities and fixed maturity. Debt securities are classified as held to maturity when the Bank intends and is able to hold them to maturity. Financial assets held to maturity are initially recognized at fair value. At each subsequent reporting date, financial investments held to maturity are carried at amortised cost using the effective interest rate. In 2016, the main transactions with financial assets held to maturity were transactions with deposit certificates of the National Bank of Ukraine.

**Note 4.14. Investments in associates and subsidiaries**

The Bank has no investments in associates and subsidiaries as there are no associates or subsidiaries of the Bank.

**Note 4.15. Investment property**

Investment property is property (land plots, buildings or parts or combinations thereof) owned or leased under finance leases and held to obtain rental payments and/or capital appreciation or both.

The Bank applied the following recognition criteria to its investment property:

1. A property is acquired by the Bank with a view to lease it under finance or operational lease arrangements.
2. Per the lease agreement, at least 90% of the property is leased for the term exceeding one year.

Investment property is initially recognized at cost including the purchase price and all costs directly attributable to its acquisition. At each subsequent date after initial recognition, investment property is measured at cost less accumulated depreciation and impairment losses.

No investment property was carried by the Bank in 2016.

**Note 4.16. Goodwill**

Goodwill is an excess of the purchase price over the acquirer's interest in the fair value of acquired identifiable assets, liabilities and contingent liabilities at the acquisition date.

In 2016, the Bank did not recognize any goodwill.

**Note 4.17. Property and equipment**

Property and equipment are tangible items that the Bank holds for use in the course of business, supply of services, for rental to others, or for administrative purposes and that are expected to be used during more than one year, and the unit (set) cost of which (including VAT) is more than UAH 6 thousand.

Purchased (manufactured) property and equipment are valued at cost, which includes the purchase price, state duty, customs duty, shipping and unloading costs, installation costs and other costs directly attributable to bringing the asset to operational condition.

The initial cost of property and equipment is increased by the expenses incurred in the course of the asset improvement (modernization, modification, completion, further equipping, reconstruction etc.)

Following initial recognition, property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Non-current assets are not revalued.

The costs of current repair and maintenance of assets are expensed as incurred and do not affect the carrying value of property and equipment.

Non-current tangible assets with cost not exceeding UAH 6,000 useful life exceeding one year are recognized as low-value non-current assets.

Impairment of property and equipment in the Bank is identified by the permanent commission when there is evidence of possible impairment of the assets. Based on the analysis of the possible impairment of property and equipment a decision is made as to the recognition or reversing of impairment losses on property and equipment.

In 2016, the Bank did not recognize impairment of property and equipment, as the loss of economic benefits of property and equipment carried by the Bank was not probable.

**Note 4.18. Intangible assets**

Intangible assets include non-monetary assets that do not have physical substance and can be identified. Intangible assets include acquired licenses and software and are carried at cost, which includes actual acquisition (production) cost and any directly attributable cost of preparing the asset for its intended use.

Subsequently, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

The Bank determines the useful life of each intangible asset on an individual basis, according to the following criteria: experience of the Bank with similar assets, current trends in the development of software products, and performance characteristics.

The amortization rates and useful lives of intangible assets in use are revised when expected benefits from their use change. In 2016, the Bank did not revise any amortization rates or useful lives of its intangible assets.

Impairment of intangible assets in the Bank is identified by the permanent commission when there is evidence of possible impairment of the assets.

In 2016, the Bank did not recognize impairment of intangible assets, as the loss of economic benefits of intangible assets carried by the Bank was not probable.

**Note 4.19. Operating leases where the Bank is a lessor and/or a lessee**

Operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Usually operating lease contracts give the lessee the right to use non-current assets for a period not exceeding their useful lives and provide for a return of assets when the lease contract expires.

In 2016, the Bank was the leaseholder of offices under operating lease arrangements. Lease payments under operating lease agreements are recognized as other operating expenses.

Leasehold improvement costs incurred by the lessee Bank (modernization, modification, further construction, upgrade, renovation etc. of assets in operating lease) that lead to future economic benefits in excess of those initially expected from their use, are recognized by the Bank as a capital investment in leasehold improvement.

In 2016, the Bank leased a part of its own premises under an operating lease agreement. As of 31 December 2016, the value of assets leased by the Bank under operating leases was UAH 6,591 thousand.

Property and equipment subject to operating leases are measured using the same method as property and equipment used by the Bank.

Lease payments on property and equipment subject to operating leases are accrued monthly over the lease term in accordance with lease contracts.

**Note 4.20. Finance leased where the Bank is a lessor and/or a lessee**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred depending on the substance of the transaction in accordance with IAS 17 Leases. During 2016, the Bank did not enter any finance lease transactions.

**Note 4.21. Non-current assets held for sale and disposal groups**

The Bank classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets are classified by the Bank as those held to sale, if the following criteria are met on the date of the decision to recognise them as assets held for sale: the condition of the assets allows to sell them immediately, and their sale within one year following the classification is highly probable.

As at 31 December 2016, the Bank did not have non-current assets held for sale or disposal groups.

**Note 4.22. Depreciation and amortisation**

All non-current assets (except for land and capital investments in progress) are subject to depreciation and amortization.

Deprecation or amortization is not charged when the book value of a non-current asset equals its scrap value.

Deprecation or amortization of non-current assets is charged from the first day of the month following the month of acquisition and is terminated on the first day of the month following the month of the asset disposal.

Non-current asset depreciation or amortization rates are based on the useful lives of non-current assets. Deprecation or amortization is charged on a straight-line basis. The depreciation or amortization method was not changed in 2016.

Property and equipment is depreciated and intangible assets are amortised over their useful lives determined by the permanent commission at their initial recognition based on useful lives of groups and subgroups of non-current assets classified by the Bank for accounting purposes, and useful lives of intangible assets set forth by title documents (contracts, licenses etc.) taking into account minimum depreciation and amortization terms specified by the Tax Code of Ukraine, namely:

- land plots – not depreciated;
- buildings, structures and transmission equipment - 20 years;
- machinery and equipment – 4-10 years;
- vehicles (motor cars) – 5 years;
- instruments, fixtures, and furniture – 4-5 years;
- other property and equipment – 12 years.

Low-value non-current tangible assets are 100% depreciated in the first month of their use.

The Bank did not revise depreciation and amortization rates and useful lives of non-current assets in 2016.

**Note 4.23. Discontinued operations**

According to International Financial Reporting Standards, a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations,
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
(c) is a subsidiary acquired exclusively with a view to resale.

In 2016, the Bank did not discontinue banking operations under the license of the National Bank of Ukraine.

**Note 4.24. Derivative financial instruments**

A derivative financial instrument is a financial instrument, which meets the following criteria:

- 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 underlying variable;
- it requires no initial net investment; and
- it is settled at a future date.

The Bank enters into derivate contracts, including foreign currency purchase, sale and exchange contracts, with other banks, as well as currency swaps designed to manage currency and liquidity risks and for trading purposes. These derivatives are initially recognized and recorded at fair value. Transaction costs are expensed at initial recognition. All derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives used by the Bank are not hedge instruments and are not subject to hedge accounting.

**Note 4.25. Borrowings**

Borrowings are non-derivative financial liabilities to customers. They are recognized at fair value when the Bank receives cash and subsequently measured at amortized cost using the effective interest rate.

Deposits are accepted, serviced and repaid, and interest is accrued and paid on them under the terms of agreements entered into in national and foreign currencies. The Bank is a member of the Deposit Guarantee Fund.

Income and expenses are recognized on an accrual basis or based on the fact under the contract result. Interest on borrowings is accrued using the *actual/actual* method.

The Bank accepts deposits from individuals and issues registered saving (deposit) certificates. These certificates are debt securities of the Bank that are placed (sold) at their face (fair) value. The Bank subsequently measures them at amortised cost.

**Note 4.26. Financial liabilities at fair value through profit or loss**

A financial liability is any liability that:

- a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank;
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the Bank is obliged to deliver a variable number of its own equity instruments, or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

A financial liability is recognized only when the Bank becomes a party to a contract that gives rise to this instrument.

Both financial liabilities and financial assets are initially recognized at fair value adjusted for costs directly attributable to the acquisition or issue transaction.

Financial liabilities are derecognized at the date of their settlement.

**Note 4.27. Debt securities in issue**

A saving (deposit) certificate is a security certifying the amount of the deposit in the Bank and the rights of the depositor (certificate holder) to receive, after a specified period of time, the principal amount of the deposit and interest set by the certificate. The Bank issues registered saving (deposit) certificates for a period of six months or more.

Saving (deposit) certificates are issued both in national and in foreign currencies in the documentary (paper) form only.

The Bank recognizes a gain or loss in the event of funds raising on the deposit (where a saving (deposit) certificate is issued) at a rate that is lower or higher than the market rate. In the case of transactions with shareholders, these differences are recognized on account 5105 *Gain of Loss of Financial Instrument Value Adjustment at Initial Recognition*.

When the term of the deposit repayment according to a fixed-term saving (deposit) certificate expires, the certificate is classified as a document on demand, and the Bank is obliged to pay the deposit amount and interest thereon specified in the certificate, should be certificate be presented.

**Note 4.28. Provisions for liabilities**

The Bank assesses credit risk of the financial liabilities issued on an individual basis. The Bank assesses credit risk on the financial liabilities issued, which were recorded on the following groups of off-balance sheet accounts:

- warranties, guarantees, letters of credit and acceptances granted to banks;
- guarantees granted to clients;
- credit related commitments granted to banks;
- credit related commitments granted to clients;
- foreign currency and precious metals receivable;
- assets receivable.

The Bank does not provide for:

- credit related commitments to customers (other than banks) which are revocable and risk-free, i.e. where the contractual terms specify the Bank's unfettered right to decline, unilaterally and without notifying the debtor in advance, to continue the fulfilment of its obligations, including the cases of the debtor's financial condition deterioration and/or failure to perform under the contract on a timely basis;
- tax bills avalised by the Bank;
- transactions with assets receivable under *spot* terms, forwards, options and futures, where the Bank, according to contracts is not obliged to effect prepayments but has the right to decline the liabilities, by offsetting counterclaims or otherwise.

Provisions for financial liabilities issued secure their fulfilment in the future are recognized as liabilities in the statement of financial position of the Bank as the outflow of economic benefits required to meet the financial liability is probable.

**Note 4.29. Subordinated debt**

Subordinated debt represents common unsecured debt capital instruments (equity components), which, according to the contract, cannot be taken from the Bank within a five-year period, and in the case of bankruptcy or liquidation are returned to the investor after the claims of all other creditors are settled. Subordinated debt may be included in the Bank's regulatory capital following a permission of the National Bank. The amount of subordinated debt included in regulatory capital is reduced annually by 20% of its initial amount over the last five years of the contract. Subordinated debt is initially recognized at fair value. Subsequently it is carried at amortized cost using the effective interest rate.

In 2016, the Bank did not raise funds through subordinated debt.

**Note 4.30. Income tax**

In the reporting year, the profit of the Bank was taxed according with the Tax Code of Ukraine.

The income tax rate is 18% IN 2016.

For the purposes of temporary differences and deferred tax computation, the Bank applies the method based on appropriate book values and tax bases.

According to IAS 12 *Income Taxes*, temporary differences are the differences between the book value of an asset or liability and its tax base. Deferred tax assets and deferred tax liabilities are determined on a quarterly basis in accordance with the period of interim financial reporting.

Income tax expense in the financial statements includes current tax and movements in deferred taxes.

Income tax expense are recognised in profit or loss, except for the amounts included directly in equity.

**Note 4.31. Share capital and share premium**

Share capital represents the paid shareholders' commitments to invest funds taken through a subscription for shares in the share capital, the amount of which is registered in accordance with Ukrainian law. Any increased or decreases of the share capital are effected following the procedure set forth by the National Securities and Stock Market Commission.

Share premium represents the difference between the proceeds from the share issue and their face value.

Contributions to share capital are carried at their fair value at the date of the transaction.

At 31.12.2016, the registered and fully paid share capital consists of 500,000 ordinary registered shares with e face value of UAH 1,000 per share. All ordinary shares give equal voting rights following the *one share is one vote* principle.

**Note 4.32. Preference shares**

Preference shares give their holders the prevailing rights with respect to the holders of common shares, to receive part of the profits of the Bank in the form of dividends and to receive part of the Bank's property in case of liquidation, as well as providing the right to participate in governing the Bank in cases stipulated by the Charter and the law which regulates the establishment, operation and termination of joint stock companies.

The Bank neither issued nor placed preferred shares.

**Note 4.34. Dividends**

Dividends are a part of the net profit distributed among the shareholders according to their share in the Bank’s authorized capital. Dividends are paid from the net profit of the reporting year and/or retained earnings according to the decision of the Annual General Meeting. The amount of the dividends is determined by the Annual General Meeting.

**Note 4.35. Recognition of income and expenses**

For the purpose of these financial statements, income and expenses recognized by the Bank from banking operations and other operations are classified as income and expenses from operating, investing and financing activities of the Bank.

Income and expense recognition criteria are applied to each transaction of the Bank separately. Each type of income and expenses is recorded separately.

Gains and losses from operations are determined by agreements between the parties thereto or other documents issued in accordance with Ukrainian law.

Interest income and expenses attributable to debt instruments are accrued using the EIR method and recorded in accounts of classes 6 and 7. In the case of financial instruments where future cash flows cannot be determined (overdrafts, revolving credit lines, and demand deposits) and where EIR is not applied, the Bank uses a nominal interest rate for the recognition of interest income.

The Bank recognizes interest accrued on financial instruments at contractual interest rates on accounts of accrued income (classes 1, 2, and 3) and accrued expenses.

If the recoverability of loans or other debt instruments is doubtful, their value is written down to the present value of expected cash flows and interest income is subsequently accrued, and the effective interest rate used to assess impairment losses. For the purpose of interest accrual on these financial instruments, their carrying amount is adjusted by the allowance bought forward at the beginning of the corresponding period (which reduces the book value of the asset).

Income and expenses are measured and recorded in the period of economic transactions, whether or not cash was received or paid. Amortization of discount (premium) on financial instruments is charged when interest is accrued.

In the case of financial instruments where EIR is not applied, the Bank uses a nominal interest rate for the recognition of interest income.

Gains (losses) from one-off services (e.g. fees for currency exchange, advice provided (received), etc.) are recognized but not recorded on accrued income (expenses) accounts, if the funds were received (paid) during the reporting period in which the services were actually rendered (received).

Fees and commissions that are an integral part of credit income (expenses) are recorded by the Bank on deferred income accounts until a loan or a credit line tranche is issued. Prepaid commissions are included in the financial instrument when the loan is issued, by a transfer thereof to discount/premium accounts.

**Note 4.36. Foreign currency translation**

Monetary assets and liabilities in foreign currencies and precious metals are translated into hryvnia at the official rate of the National Bank of Ukraine, effective on the transaction date.

At each subsequent reporting date after the recognition all monetary items in foreign currency and precious metals are carried at the UAH official exchange rate to foreign currencies/precious metals on the reporting date.

Gains or losses from translation of foreign currencies and precious metals are shown as Gains/(losses) on foreign currency revaluation in the statement of profit or loss and other comprehensive income.

Non-monetary items in foreign currencies and precious metals carried at cost are recorded at the UAH official rate to foreign currencies and precious metals on the date of their recognition (transaction date).

Non-monetary items in foreign currencies and precious metals carried at fair value are recorded at the UAH official rate to foreign currencies and precious metals on the date of their fair valuation.

Gains and losses in foreign currencies are recorded on accounts of classes 6 and 7 in the national currency at the UAH official rate to foreign currencies at the recognition date, using accounts of group 380 The Bank’s position with respect to foreign currencies and precious metals.

Assets and liabilities in foreign currencies and precious metals are recognized in the financial statements in their UAH equivalent at the official exchange rate at 31 December 2016 or the recognition date. Balances on accounts 3800 and 3801 are not presented in the financial statements.

The principal official exchange rates of foreign currencies set by the NBU and used for the translation of foreign currency balances were as follows:

| Currency code | | Currency name and amount | | 31 December 2016 | 31 December 2015 |
|---|---|---|---|---|---|
| 826 | GBP | 100 | English pounds | 3,332.0755 | 3,553.3176 |
| 840 | USD | 100 | US dollars | 2,719.0858 | 2,400.0667 |
| 985 | PLN | 100 | Polish zloty | 643.9048 | 618.4700 |
| 643 | RUB | 10 | Russian roubles | 4.5113 | 3.2931 |
| 756 | CHF | 100 | Swiss francs | 2,652.8471 | 2,424.9241 |
| 978 | EUR | 100 | Euros | 2,842.2604 | 2,622.3129 |

The Bank adheres to standards of open currency positions to reduce the currency risk.

**Note 4.37. Offsetting of assets and liabilities**

The Bank offsets a financial asset and a financial liability, and shows a net amount in the statement of financial position, if and only if:

- it has legally enforceable right to set off the recognized amounts;
- it intends to settle the liability on a net basis or sell the asset and settle the liability simultaneously.

In 2016, the Bank did not offset any assets and liabilities in its statement of financial position.

**Note 4.38. Assets held in trust**

The Bank effects trust management operations with funds attracted from individuals and legal entities to finance housing construction. As of 31 December 2016, the Bank is the manager of four construction financing funds.

The Bank records financial assets held in trust and keeps separately from its own assets. Trust management operations are accounted for separately by each individual trust management contract.

Trust management is based on the trust management agreement concluded between the Bank and the trustor.

The Bank receives income from this type of operation predominantly as fees from trustors and developers; the amounts and frequency of payments are specified by relevant agreements. The Bank records these fees on account 6116.

**Note 4.39. Accounting for inflation**

The need to translate the financial statements in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* is a matter of judgment. Characteristics of the economic environment of Ukraine in 2016 do not contain indicators of hyperinflation. Therefore, the Bank did not recalculate the financial statements.

**Note 4.40. Employee benefits and associated deductions**

Employee benefits include:

a) short-term payments:
  - wages, salaries and social contributions;
  - annual paid leaves and temporary disability;
  - payment of bonuses;

b) post-employment benefits, such as:
  - pensions (e.g. pensions and one-time payments on retirement);

c) other long-term payments, such as:
  - jubilee payments or other long-service benefits;
  - payments on long-term disability;

d) severance payments.

The main deductions from the payments made by the Bank to its employees include personal income tax and military duty. A unified social contribution is also levied.

The Bank makes monthly allocations to the provision for vacations. This provision is used to pay for annual vacations of employees in future periods.

The Bank does not have a pension scheme for its employees.

**Note 4.41. Operating segment information**

In accordance with IFRS 8 *Operating Segments,* information should be disclosed in respect of both business segments and geographical segments. One of these formats is treated as primary, and the other as secondary.

The Bank designated business segments as the primary disclosure format. No disclosure is made by geographical segments, as the Bank does not work outside Ukraine.

Operating segments are identified based on major operation areas:

1) services to corporate clients;
2) services of retail business;
3) interbank business.

An operating bank segment is treated as a reporting segment if its revenue is generated predominantly from external customers and its operating indicators meet at least one of the following criteria:

- its reported revenue is 10 per cent or more of the total comprehensive income;
- the absolute amount of its reported profit or loss is 10 per cent or more of the total profit or loss;

- the carrying amount of assets is 10 per cent or more of the combined assets of all operating segments.

Intersegment transactions are performed on normal market conditions. Resources are reallocated between segments, which causes transfer expenses or income of segments. There is no other significant redistribution between segments. Segment assets and liabilities account of a major portion of total assets in the balance sheet and do not exclude tax effects. Capital is not assigned to segments except for result of the current year and other comprehensive income.

There were no changes in the accounting policies regarding the recognition and allocation of segments in the reporting period.

**Note 4.42. Related party transactions**

The Bank defines the list of related parties in accordance with International Accounting Standard 24 *Related Party Disclosures*.

Agreements with related parties may not provide for conditions that are not current market conditions. When the terms of agreements with related parties of the Bank are different from current market conditions, these agreements are deemed invalid when signed.

**Note 4.43. Changes of accounting policies, accounting estimates, correction of significant errors and their presentation in the financial statements**

Changes in accounting policies are made when required by a new or revised standard or interpretation, or on the Bank's own initiative, if the changes provide for more reliable and meaningful information in the financial statements.

During the reporting period, the Bank implemented the changes to the *Regulation on the Procedure for the Impairment Testing and Allowances for Financial Instruments of PJSC BANK FOR INVESTMENTS AND SAVINGS*, considering the Bank's own experience and the recommendations of external auditors.

In particular, the indicators of financial assets impairment were updated, namely, the indicator of impairment based on information of the world's leading rating agencies for banks was excluded (this change applies, first of all, to the classification of demand deposit balances with other banks).

As result, the Bank changed its classification of certain balance sheet groups recognition for the purposes of these financial statements. The changes for the year ended 31 December 2015 are as follows:

Cash and cash equivalents (Note 6)

| | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|
| Cash | 30,516 | - | 30,516 |
| Balances with the National Bank of Ukraine | 98,407 | - | 98,407 |
| Correspondent accounts, overnight deposits and loans to other banks: | 1,975 | 262,728 | 264,703 |
| *In Ukraine* | *1,975* | *80,292* | *82,267* |
| *In other countries* | - | *182,436* | *182,436* |
| Allowance for cash impairment | - | (38,541) | (38,541) |
| **Total cash and cash equivalents** | **130,898** | **224,188** | **355,086** |

Cash equivalent credit quality analysis

| | | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|---|
| | | Correspondent accounts | Correspondent accounts | Correspondent accounts |
| 1 | Neither impaired nor overdue: | | | |
| 1.1 | With 20 largest banks | - | 82,250 | 82,250 |
| 1.2 | With other banks in Ukraine | 1,975 | (1,958) | 17 |
| 1.3 | With large banks in OECD countries | | 180,554 | 180,554 |
| 1.4 | With other banks in OECD countries | | 1,787 | 1,787 |
| 1.5 | With other banks | - | 95 | 95 |
| | Cash equivalents before allowance | 1,975 | 262,728 | 264,703 |
| | Allowance | | (38,541) | (38,541) |
| 5 | Total due from other banks net of allowance | 1,975 | 224,187 | 226,162 |

Analysis of movements of cash impairment allowance

| | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|
| Allowance for impairment at beginning of the period | - | | - |
| (Increase)/decrease of allowance for impairment during the year | - | (38,541) | (38,541) |
| Allowance for impairment at end of the period | - | (38,541) | (38,541) |

Due from other banks (Note 7)

| | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|
| Correspondent accounts with banks: | 263,492 | (262,727) | 765 |
| In Ukraine | 81,056 | (80,291) | 765 |
| In other countries | 182,436 | (182,436) | - |
| Allowance for impairment of due from other banks | (39,305) | 38,540 | (765) |
| Total due from other banks net of allowance | 224,187 | (224,187) | - |

Analysis of movements of due from other banks impairment allowance

| | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|
| Allowance for impairment at beginning of the period | - | (765) | (765) |
| (Increase)/decrease of allowance for impairment during the year | (39,305) | 40,070 | 765 |
| Allowance for impairment at end of the period | (39,305) | 39,305 | - |

Credit quality analysis of due from other banks

| | | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|---|
| 1 | Neither impaired nor overdue: | 180,555 | (180,555) | - |
| 1.1 | Due from large banks in OECD countries | 180,555 | (180,555) | - |
| 2 | Individually impaired amounts: | | | |
| 2.1 | Not overdue | 82,938 | (82,938) | 0 |
| 2.2 | Overdue for 93-183 days | - | 765 | 765 |
| 3 | Due from other banks before allowance | 263,493 | (262,728) | 765 |
| 4 | Due from other banks impairment allowance | (39,305) | 38,540 | (765) |
| 5 | Total due from other banks net of allowance | 224,187 | (224,187) | - |

Loans to customers (Note 8)

| | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|
| Corporate loans | 5,135,645 | - | 5,135,645 |
| Loans issued under repo transactions | - | - | - |
| Loans to sole traders | 20,665 | - | 20,665 |
| Corporate mortgage loans | 1,583 | - | 1,583 |
| Consumer loans to individuals | 12,860 | - | 12,860 |
| Other loans to individuals | 4,116 | (1,147) | 2,969 |
| Loan impairment allowance | (117,866) | - | (117,866) |
| **Total loans net of allowance** | 5,057,003 | (1,147) | 5,055,856 |

Other financial assets (Note 11)

| | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|
| Receivables from credit and debit card transactions | - | 1,147 | 1,147 |
| Restricted cash | 8,730 | - | 8,730 |
| Other | 35 | (5) | 29 |
| Impairment allowance | (2) | - | (2) |
| Total other financial assets net of allowance | 8,763 | 1,141 | 9,904 |

Other assets (Note 12)

| | Per the prior period | Reclassification impact | Adjusted amount |
|---|---|---|---|
| Receivables on asset acquisition | 59 | - | 59 |
| Prepaid services | 11 | - | 11 |
| Precious metals | 80 | - | 80 |
| Property acquired by the Bank as a collateral holder | | - | |
| Other | 793 | 5 | 798 |
| Allowance | (12) | - | (12) |
| Total other assets net of allowance | 932 | 5 | 937 |

**Note 4.44. Significant accounting judgments and estimates, and their effect on the recognition of assets and liabilities**

Preparation of IFRS financial statements requires the Bank to make certain judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets and liabilities, income and expenses presented in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, and the results of which form the basis for judgments about the carrying amounts of assets and liabilities. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities in subsequent periods include:

*Going concern.* The Bank follows the assumption that its operations will continue in the future, and that it has neither the intention nor the need for the liquidation or a significant reduction in the volume of transactions.

*Loan impairment losses.* The Bank estimates impairment by assessing the likelihood of repayment of loans and advances based on its analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. The factors taken into consideration when assessing individual loans include their repayment history, current financial condition of the borrower, debt servicing and collateral, if any. The allowances for impairment losses in the financial statements were determined on the basis of existing economic and political conditions. The Bank is not able to predict changes in the economic and political situation that will take place in Ukraine and what effect they might have on the adequacy of allowances for losses in future periods.

To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest, and proceeds from the sale of collateral, if any. Then these cash flows are discounted using the original loan interest rate. Actual payments of principal and interest on the debt depend on the ability of the borrower to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

Note 9 discloses information on the carrying value of loans and the amounts of credit risk recognized. If actual repayments were lower than management estimates, the Bank would be required to record additional loan impairment expenses.

*Fair value of financial instruments*. If the fair value of financial assets and liabilities stated in the statement of financial condition cannot be derived on the basis of active market prices, it is estimated using various measurement methodologies that include the use of mathematical models. The input data for these models is obtained, where possible, from observed markets, and if this is not possible, certain assumptions are used in order to estimate the fair value.

*Impact of hyperinflation.* The Bank considers application of IAS 29 *Financial Reporting in Hyperinflationary Economies* only when, according to its management's judgement, this would improve the quality and relevance of financial information. The indicators that must exist for this purpose include but are not limited to the following: the general population prefers to keep its wealthy in non-monetary assets or in a relatively stable foreign currency; the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency; prices are quoted in a relatively stable foreign currency; sales and purchases on credit take place in prices that compensate for the expected loss of purchasing power during the credit period; interest rates, wages and prices are linked to a price index. In the opinion of the Bank, these factors did not exist in aggregate in the reporting period and, considering a relative stabilisation of the economic situation in Ukraine in 2016 and expectations that this trend will persist in the subsequent periods, the financial statements do not need to be restated in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*.

## Note 5. Transition to new and amended standards

The accounting policies adopted are consistent with those applied in the previous financial year.

**New standards presented below and amendments to standards implemented with the framework of the annual IRFS improvement project**, are mandatory for the Bank starting from 1 January 2016 and had no impact on the Bank's accounting policies, financial position or performance:

***Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the financial statements of the Bank, as the Bank does not use a revenue-based method to depreciate or amortise its non-current assets.

**Annual Improvements 2012-2014 Cycle**

These improvements include:

*IFRS 7 Financial Instruments: Disclosures*

*(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be performed retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim information must be disclosed either in the interim financial statements or elsewhere in the interim financial report (e.g., in the management commentary or risk assessment report) and cross-referenced as appropriate. Other information within the interim financial report must be available to users on the same terms and at the same time as the interim financial statements. This amendment is applied retrospectively.

These amendments do not have any impact on the financial statements of the Bank.

***Amendments to IAS 1 Disclosure Initiative***

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified into items that

will or will not be subsequently reclassified to profit or loss;

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments do not have a material impact on the financial statements of the Bank.

**New standards and interpretations that will be mandatory for the Bank in the future are presented below.**

The following new standards and interpretations were issued that will be mandatory for the Bank in the reporting periods starting on or after 1 January 2017.

The Bank did not implement these standards and interpretations before their effective date.

***IFRS 9 Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that incorporates the results of all stages of the financial instrument project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

IFRS 9 introduces new requirements to the classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required but providing comparative information is not compulsory.

The impact of IFRS 9 on the classification and measurement of financial assets and financial liabilities of the Bank is being assessed. The Bank is developing an action plan for the implementation of IFRS 9.

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles of IFRS 15 provide a more structured approach to the revenue measurement and recognition.

The new revenue standard is applicable to all organizations and will replace all existing requirements to revenue recognition is accordance with IFRS. This standard does apply to revenue from insurance contracts that are within the scope of IRFS 4 *Insurance Contracts*, from leases that are within the scope of IAS 17 *Leases*, as well as to revenue arising with respect to financial instruments and other contractual rights and obligations subject to IFRS 9 *Financial Instruments*.

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted Retrospective application is required in full or using the modified retrospective approach.

The Bank is assessing the impact of IFRS 15 and plans to adopt the standard on its effective date.

***IFRS 16 Leases***

IFRS 16 was issued in January 2016 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

IFRS 16 will replace IAS 17 *Leases* and its implementation guidance.

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases to ensure that lessees and lessors provide relevant information that fairly presents these operations.

IFRS 16 applies a control-based model to identify a lease, distinguishing leases from service contracts depending on whether an asset is controlled by the lessee.

Significant changes will be introduced to the lessees' accounting: there will be no difference between finance and operating leases and both assets and liabilities will be recognized for all lease contracts (with exceptions regarding short-term leases and leases of 'low-value' assets).

The standard does provide for any significant changes in the lessors' accounting.

The Bank has started to assess the impact of IFRS 16 and plans to adopt the standard on its effective date.

**Amendments to IAS 7 *Statements of Cash Flows***

The amendments to IAS 7 *Statements of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendments, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Bank.

**Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the financial statements of the Bank.

**Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions**

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption of these amendments, entities are not required to restate prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are expected to have no effect on the financial statements of the Bank.

**Annual Improvements 2014-2016 Cycle**

These improvements include:

IFRS 1 *First-time adoption of IFRS*

IFRS 1 has been amended to remove short-term exemptions dealing with IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IFRS 10 *Consolidated Financial Statements*. The reliefs provided are no longer applicable and were available to entities for reporting periods that have now passed. This annual improvement is effective for periods beginning on or after 1 January 2018.

*Amendments to IAS 40 Investment Property*

IAS 40 requires a property to be transferred to, or from, investment property only when there is a change in use. The amendment clarifies that a change in management's intentions for the use of a property does not in isolation provide evidence of a change in use. This is because management's intentions, alone, do not provide evidence of a change in use. An entity must, therefore, have taken observable actions to support such a change. The amendment is effective for periods beginning on or after 1 January 2018.

The Bank is assessing the potential effect of the amendment on its financial statements.

## Note 6. Cash and cash equivalents

### Table 6.1. Cash and cash equivalents

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Cash | 41,390 | 30,516 |
| 2 | Balances with the National Bank of Ukraine | 104,232 | 98,408 |
| 2.1 | including mandatory reserves | 59,088 | 57,962 |
| 3 | Deposit certificates issued by the NBU | 83,064 | - |
| 4 | Correspondent accounts and overnight loans in other banks: | 219,770 | 264,703 |
| 4.1 | in Ukraine | 218,274 | 82,267 |
| 4.2 | in other countries | 1,496 | 182,436 |
| **5** | **Allowance for cash impairment** | **(51,836)** | **(38,541)** |
| **6** | **Total cash and cash equivalents** | **396,620** | **355,086** |
| | | | |
| **7** | **For the purposes of the statement of cash flows, cash and cash equivalents** | **389,260** | **335,443** |
| | Do not include: | | |
| 7.1 | Mandatory reserves with the NBU | (59,088) | (57,962) |
| 7.2 | Allowance for cash impairment | 51,836 | 38,541 |
| 7.3 | Accrued interest income on deposit certificates issued by the NBU | (64) | - |
| 7.4 | Accrued interest income on correspondent accounts and overnight loans in other banks | (44) | (222) |

According to the requirements of the National Bank of Ukraine, the mandatory reserve of the Bank is calculated as a specified percentage of the funds attracted by the Bank for the previous reservation period. The Bank is obliged to maintain the minimum daily balance on its correspondent account with the National Bank of Ukraine amounting to 40% of the mandatory reserve for the previous month. As at 31 December 2016 the estimated mandatory reserve is UAH 147,719 thousand, and the minimum balance is UAH 59,088 thousand (UAH 144,905 thousand and UAH 57,962 thousand as at 31 December 2015, accordingly).

The Bank does not have any cash equivalents that were actually collateralised by securities acquired in repo transactions or securities that can be sold or pledged.

### Table 6.2. Analysis of the cash equivalents credit quality for the reporting period

| Line | Item | Correspondent accounts | Overnight loans | Deposit certificates of the NBU | Total |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 4 | 5 |
| 1 | Neither impaired nor overdue: | | | | |
| 1.1 | With the National Bank of Ukraine | - | - | 83,064 | 83,064 |
| 1.2 | With 20 largest banks in Ukraine | 110,071 | - | - | 110,071 |
| 1.3 | With other banks in Ukraine | 2 | 108,202 | - | 108,204 |
| 1.4 | With other banks | 1,495 | - | - | 1,495 |
| 2 | Cash equivalents before allowance | 111,568 | 108,202 | 83,064 | 302,834 |

| Line | Item | Correspondent accounts | Overnight loans | Deposit certificates of the NBU | Total |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 4 | 5 |
| 3 | Allowance | (51,836) | - | - | (51,836) |
| **4** | **Total cash equivalents net of allowance** | **59,732** | **108,202** | **83,064** | **250,998** |

**Table 6.3. Analysis of the cash equivalents credit quality for the previous period**

| Line | Item | Correspondent accounts | Total |
|---|---|---|---|
| 1 | 2 | 3 | 5 |
| 1 | Neither impaired nor overdue: | | |
| 1.1 | With 20 largest banks in Ukraine | 82,250 | 82,250 |
| 1.2 | With other banks in Ukraine | 17 | 17 |
| 1.3 | With large banks in OECD countries | 180,554 | 180,554 |
| 1.4 | With other banks in OECD countries | 1,787 | 1,787 |
| 1.5 | With other banks | 95 | 95 |
| 2 | Cash equivalents before allowance | 264,703 | 264,703 |
| 3 | Allowance | (38,541) | (38,541) |
| **4** | **Total cash equivalents net of allowance** | **226,162** | **226,162** |

**Table 6.4. Analysis of movements in cash equivalent allowance**

| Line | Movement of allowances | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Allowance at beginning of the period | (38,541) | - |
| 2 | (Increase)/decrease in allowances during the period | (13,141) | (38,541) |
| 3 | Exchange differences | (154) | - |
| **4** | **Allowance at end of the period** | **(51,836)** | **(38,541)** |

## Note 7. Due from other banks

**Table 7.1. Due from other banks**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Correspondent accounts with banks: | - | 765 |
| 1.1 | In Ukraine | - | 765 |
| 2 | Impairment allowance for due from other banks | - | (765) |
| **4** | **Total due from other banks net of allowance** | - | - |

**Table 7.2. Credit quality analysis of due from other banks for the previous period**

| Line | Item | Correspondent accounts | Total |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Individually impaired amounts | 765 | 765 |
| 1.1 | Overdue for 93-183 days | 765 | 765 |
| 2 | Due from other banks before allowance | 765 | 765 |
| 3 | Impairment allowance of due from other banks | (765) | (765) |
| **4** | **Total due from other banks net of allowance** | **0** | **0** |

Due from other banks overdue for 93-183 days includes balances on correspondent accounts of JSC *Bank Finance and Credit* that went into receivership on 17.09.2015 and later had its banking license revoked. Liquidation of this bank was initiated by the Resolution of the NBU No 898 as of 17.12.2015.

Analysis of the credit quality of due from other banks for the reporting period is not presented, as the Bank does not have any amounts due from other banks as the reporting date.

**Table 7.3. Analysis of movements in impairment allowance of due other banks**

| Line | Movement of allowances | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Impairment allowance at beginning of the period | (765) | - |
| 2 | Decrease in impairment allowance during the period | 765 | (765) |
| **3** | **Impairment allowance at end of the period** | **-** | **(765)** |

## Note 8. Loans to customers

**Table 8.1. Loans to customers**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Corporate loans | 4,262,261 | 5,135,645 |
| 2 | Loans to sole traders | 18,951 | 20,665 |
| 3 | Mortgage loans to individuals | 669 | 1,583 |
| 4 | Consumer loans to individuals | 188 | 12,860 |
| 5 | Other loans to individuals | 3,521 | 2,969 |
| 6 | Loan impairment allowance | (142,504) | (117,866) |
| **7** | **Total loans net of allowance** | **4,143,086** | **5,055,856** |

Loans concentration by customers

As at 31 December 2016, an aggregate amount of loans issued to 10 largest customers of the Bank was UAH 2,765,099 thousand, or 67% of the loan portfolio.

As at 31 December 2015, an aggregate amount of loans issued to 10 largest customers of the Bank was UAH 2,734,682 thousand, or 54% of the loan portfolio.

The Bank does not have securities pledged as collateral of loans and advances to clients on repo transactions.

**Table 8.2. Analysis of movements in the allowance for loans to customers in the reporting period**

| Line | Movement of allowances | Corporate loans | Loans to sole traders | Mortgage loans to individuals | Consumer loans to individuals | Other loans to individuals | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Balance at beginning of the period | **(116,532)** | **(48)** | **(6)** | **(1,063)** | **(217)** | **(117,866)** |
| 2 | (Increase)/decrease of allowance during the period | (19,343) | 17 | 6 | 1,014 | 39 | (18,267) |
| 3 | Exchange differences | (6,363) | (2) | - | (6) | - | (6,371) |
| **4** | **Balance at end of the period** | **(142,238)** | **(33)** | **-** | **(55)** | **(178)** | **(142,504)** |

During the reporting period, individual customers partially repaid their debt previously written off against allowances in the amount of UAH 21 thousand. This is the difference between the total cash impairment allowance (Table 6.4), due from other banks allowance (Table 7.3) allowance for loans to customers (Table 8.2) (UAH 37,168 thousand in total), from the amount of movements of cash equivalent, loans to customers and due from other banks allowances stated in the statement of profit or loss and other comprehensive income (UAH 37,147 thousand).

**Table 8.3. Analysis of movements in the allowance for loans to customers in the previous period**

| Line | Movement of allowances | Corporate loans | Loans to sole traders | Mortgage loans to individuals | Consumer loans to individuals | Other loans to individuals | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Balance at beginning of the period | **(103,316)** | **(58)** | **(36)** | **(357)** | **(188)** | **(103,955)** |
| 2 | (Increase)/decrease of allowance during the period | (9,311) | 10 | 30 | (690) | (29) | (9,990) |
| 3 | Bad debt written off against allowance | 12,147 | - | - | - | - | 12,147 |
| 4 | Effect of translation into the reporting currency | (16,052) | | | (16) | | (16,068) |
| **5** | **Balance at end of the period** | **(116,532)** | **(48)** | **(6)** | **(1,063)** | **(217)** | **(117,866)** |

**Table 8.4. Loan structure by economic activities**

(UAH thousand)

| Line | Economic activity | Reporting period | | Previous period | |
|---|---|---|---|---|---|
| | | amount | % | amount | % |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Property transactions, lease, engineering and services | 525,869 | 12.3 | 712,470 | 13.8 |
| 2 | Trade, vehicle repair, repair of household devices and personal appliances | 2,450,533 | 57.2 | 2,445,625 | 47.3 |
| 3 | Agriculture, hunting and forestry | 25,477 | 0.6 | 33,953 | 0.7 |
| 4 | Construction | 410,491 | 9.6 | 679,233 | 13.1 |

| Line | Economic activity | Reporting period | | Previous period | |
|---|---|---|---|---|---|
| | | amount | % | amount | % |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 5 | Land and pipeline transport | 131,623 | 3.1 | 159,910 | 3.1 |
| 6 | Hotels and similar temporary accommodation facilities operations | 115,430 | 2.7 | 194,701 | 3.7 |
| 7 | Manufacturing of machinery, equipment and other products | 241,499 | 5.6 | 240,300 | 4.6 |
| 8 | Sports, recreation and entertainment | 211,465 | 4.9 | 182,702 | 3.5 |
| 9 | Individuals | 4,378 | 0.1 | 17,412 | 0.4 |
| 10 | Other | 168,825 | 3.9 | 507,416 | 9.8 |
| **11** | **Total loans to customers before allowance** | **4,285,590** | **100,0** | **5,173,722** | **100,0** |

The table presents outstanding balances of loans classified by economic activities. The main sectors of the economy credited by the Bank include trade, real estate, vehicle repair, household devices repair etc. for the purposes of credit risk minimization the Bank sets credit limits by industry, which were not exceeded during the reporting year.

**Table 8.5. Loans by the type of collateral in the reporting period**

| Line | Item | Corporate loans | Loans to sole traders | Mortgage loans to individuals | Consumer loans to individuals | Other loans to individuals | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Unsecured loans | 357,642 | - | - | 55 | 3,521 | 361,218 |
| 2 | Loans secured by: | | | | | | |
| 2.1 | cash | 1,529,419 | 2,912 | | 30 | | 1,532,361 |
| 2.2 | securities | | | | | | |
| 2.3 | property | 1,587,071 | 9,801 | 669 | 103 | | 1,597,645 |
| 2.3.1 | including residential property | 32,674 | | 669 | 103 | | 33,446 |
| 2.4 | guarantees and warranties | 106,336 | | | | | 106,336 |
| 2.5 | other assets | 681,792 | 6,238 | | | | 688,030 |
| **3** | **Total loans to customers before allowance** | **4,262,261** | **18,951** | **669** | **188** | **3,521** | **4,285,590** |

During the reporting year, the Bank did not acquire financial and non-financial assets through foreclosure on pledge, or the exercise of its rights to other instruments that reduce the credit risk.

**Table 8.6. Loans by the type of collateral in the previous period**

| Line | Item | Corporate loans | Loans to sole traders | Mortgage loans to individuals | Consumer loans to individuals | Other loans to individuals | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Unsecured loans | 149,001 | - | - | - | 2,969 | 151,970 |
| 2 | Loans secured by: | | | | | | |
| 2.1 | cash | 2,082,029 | 2,512 | - | 93 | - | 2,034,634 |
| 2.2 | securities | | | | | | |
| 2.3 | property | 1,597,929 | 8,749 | 1,583 | 7,784 | - | 1,616,046 |
| 2.3.1 | including residential property | 74,955 | - | 1,583 | 1,087 | - | 77,624 |
| 2.4 | guarantees and warranties | 21,079 | - | - | - | - | 21,079 |
| 2.5 | other assets | 1,285,607 | 9,404 | - | 4,983 | - | 1,299,994 |
| **3** | **Total loans to customers before allowance** | **5,135,645** | **20,665** | **1,583** | **12,860** | **2,969** | **5,173,722** |

**Table 8.7. Credit quality analysis for the reporting period**

| Line | Item | Corporate loans | Loans to sole traders | Mortgage loans to individuals | Consumer loans to individuals | Other loans to individuals | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **1** | **Neither impaired nor overdue:** | **3,217,435** | **2,512** | **198** | **98** | **3,322** | **3,223,565** |
| 1.1 | large borrowers with over 2 years' credit history | 1,606,95 | - | - | - | - | 1,606,095 |
| 1.2 | loans to medium-sized companies | 290,704 | - | - | - | - | 290,724 |
| 1.3 | loans to small companies | 1,320,615 | - | - | - | - | 1,320,605 |
| 1.4 | Other loans to individuals | - | 2,512 | 198 | 98 | 3,322 | 6,131 |
| **2** | **Overdue but not impaired** | | | | | **7** | **7** |
| 2.1 | overdue up to 31 days | | | | | 7 | 7 |
| **3** | **Individually impaired loans:** | **604,257** | **-** | **-** | **55** | **175** | **604,487** |
| 2.1 | no overdue payments | 506,493 | - | - | - | - | 506,493 |
| 2.2 | overdue up to 31 days | - | - | - | - | - | - |
| 2.3 | 184-366 (367) days overdue | - | - | - | - | - | - |
| 2.4 | more than 366 (367) days overdue | 97,764 | - | - | 55 | 175 | 97,994 |
| **3** | **Loans impaired as a portfolio:** | **440,568** | **16,439** | **472** | **35** | **16** | **457,530** |

| Line | Item | Corporate loans | Loans to sole traders | Mortgage loans to individuals | Consumer loans to individuals | Other loans to individuals | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 3.1 | no overdue payments | 431,496 | 16,439 | 472 | 35 | 13 | 448,455 |
| 3.2 | overdue up to 31 days | 9,072 | | | | | 9,072 |
| 3.3 | 184-366 (367) days overdue | - | - | - | - | 1 | 1 |
| 3.4 | more than 366 (367) days overdue | - | - | - | - | 2 | ,2 |
| **4** | **Total loans before allowance** | **4,262,261** | **18,951** | **669** | **188** | **3,521** | **4,285,590** |
| **5** | **Allowance for loans impairment** | **(142,238)** | **(33)** | **-** | **(55)** | **(178)** | **(142,504)** |
| **6** | **Total loans net of allowance** | **4,120,023** | **18,918** | **669** | **133** | **3,343** | **4,143,086** |

The Bank's customers are classified into large, medium and small in accordance the Economic Code of Ukraine, namely, based their net income (revenue) from the sale of products (goods and services) received during the reporting period. An entity is classified as a small business if its income is less than EUR 10 million, a large business would report revenue of not less than EUR 50 million, whereas all other entities are classified as medium-sized businesses. An UAH equivalent at the NBU average annual rate is used for the classification purposes.

Liabilities to the Bank include accrued income outstanding and relevant allowances are taken into account. The assignment of a certain category of quality to the borrower's liability is based on the worst-case principle, i.e. where overdue liabilities (loan or interest thereon) exist, the whole amount of the credit transaction liabilities is classified as the worst type of debt.

**Table 8.8 Credit quality analysis for the previous period**

| Line | Item | Corporate loans | Loans to sole traders | Mortgage loans to individuals | Consumer loans to individuals | Other loans to individuals | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **1** | **Neither impaired nor overdue:** | **4,277,464** | **2,512** | **851** | **7,739** | **1,289** | **4,289,855** |
| 1.1 | large borrowers with over 2 years' credit history | 1,466,211 | - | - | - | - | 1,466,211 |
| 1.2 | loans to medium-sized companies | 361,417 | 2,512 | - | - | - | 363,929 |
| 1.3 | loans to small companies | 2,449,837 | - | - | - | - | 2,449,837 |
| 1.4 | Other loans to individuals | - | - | 851 | 7,739 | 1,289 | 9,879 |
| **2** | **Individually impaired loans:** | **207,774** | **-** | **-** | **5,031** | **204** | **213,009** |
| 2.1 | no overdue payments | 115,263 | - | - | 4,983 | 20 | 120,266 |
| 2.2 | overdue up to 31 days | 52,482 | - | - | - | - | 52,482 |

| Line | Item | Corporate loans | Loans to sole traders | Mortgage loans to individuals | Consumer loans to individuals | Other loans to individuals | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 2.3 | 184-366 (367) days overdue | 40,029 | - | - | - | 183 | 40,213 |
| 2.4 | more than 366 (367) days overdue | - | - | - | 48 | - | 48 |
| **3** | **Loans impaired as a portfolio:** | **650,406** | **18,153** | **733** | **90** | **1,476** | **670,858** |
| 3.1 | no overdue payments | 650,406 | 18,153 | 733 | 90 | 1,435 | 670,816 |
| 3.2 | overdue up to 31 days | | | | | 41 | 41 |
| **4** | **Total loans before allowance** | **5,135,645** | **20,665** | **1,583** | **12,860** | **2,969** | **5,173,722** |
| **5** | **Allowance for loans impairment** | **(116,532)** | **(47)** | **(6)** | **(1,063)** | **(218)** | **(117,866)** |
| **6** | **Total loans net of allowance** | **5,019,113** | **20,618** | **1,577** | **11,797** | **2,751** | **5,055,856** |

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

| Line | Item | Carrying amount of loans | Cash flows expected from sale of collateral | Impact of collateral |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 = 3 - 4 |
| 1 | Corporate loans | 4,120,023 | 6,181,092 | (2,061,069) |
| 2 | Loans to sole traders | 18,918 | 59,024 | (40,106) |
| 3 | Mortgage loans to individuals | 669 | 17,910 | (17,241) |
| 4 | Consumer loans to individuals | 137, | 5,461 | (5,324) |
| 5 | Other loans to individuals | 3,339 | - | 3,339 |
| **6** | **Total loans** | **4,143,086** | **6,263,487** | **(2,120,4012)** |

**Table 8.10 Impact of the collateral value on the loan quality at the previous reporting date**

| Line | Item | Carrying amount of loans | Cash flows expected from sale of collateral | Impact of collateral |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 = 3 - 4 |
| 1 | Corporate loans | 5,019,113 | 3,403,650 | 1,615,463 |
| 2 | Loans to sole traders | 20,618 | 15,402 | 5,216 |
| 3 | Mortgage loans to individuals | 1,577 | 5,048 | (3,471) |
| 4 | Consumer loans to individuals | 11,797 | 12,988 | (1,191) |
| 5 | Other loans to individuals | 2,751 | - | 2,751 |
| **6** | **Total loans** | **5,055,856** | **3,437,088** | **1,618,768** |

Assets provided as collateral are evaluated by an independent certified assessor entity under Article 3 of the Law of Ukraine *On the Assessment of Property, Property Rights and on Professional Valuation Activities in Ukraine*, according to the procedure set forth by regulations referred to in Article 9 of the Law, namely evaluation regulations (national standards), approved by the Cabinet of Ministers of Ukraine, methodologies and other legal acts tailored to the requirements of regulations (national standards) and approved by the Cabinet of Ministers of Ukraine or the State Property Fund of Ukraine (namely, national standards No 1

*General Principles of Property and Property Rights Valuation*, No 2 *Real Estate Valuation*, and No 3 *Valuation of Integral Property Complexes* and other documents).

The value of assets provided as collateral is reviewed (updated) by an independent assessor entity taking into account changing conditions in the market for these assets and/or the condition of the assets, but at least once every twelve months for real estate, equipment and vehicles, and every six months for other assets using comparative, expenditure and income approaches (separately), and any combination thereof.

## Note 9. Securities available for sale

### Table 9.1. Securities available for sale

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Financial investments in companies | 784 | 784 |
| 2 | Impairment allowance financial investments in companies | (784) | (784) |
| **3** | **Total financial investments in companies net of allowance** | **-** | **-** |

The Bank did not transfer without derecognition any securities as collateral under repo transactions.

## Note 10. Property, equipment and intangible assets

### Table 10.1. Property, equipment and intangible assets

Acquisitions, transfers, reclassifications and disposals of property and equipment are carried at book value.

| Item | Land plots | Building, construc tions and transmit ting facilities | Machi nery and equip ment | Trans-port vehicle s | Fixtures and fittings (furniture) | Other proper ty and equip ment | Other non-current tangible assets | Work in progress on property, equipment and intangible assets | Intangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Carrying value at beginning of previous year** | **232** | **18,280** | **2,281** | **501** | **714** | **446** | **-** | **277** | **2,142** | **24,873** |
| Cost or valuation | 232 | 22,259 | 11,395 | 1,419 | 3,804 | 1,834 | 1,216 | 277 | 4,129 | 46,565 |
| Accumulated depreciation and amortization at beginning of previous year | - | (3,979) | (9,114) | (918) | (3,090) | (1,388) | (1,216) | - | (1,987) | (21 692) |
| Additions | - | - | 305 | 866 | 27 | 88 | 22 | 1,241 | 798 | 3 347 |
| Capital investments into completion of property and equipment and improvement of intangible assets | - | - | 134 | - | 11 | 19 | - | (340) | 176 | - |
| Disposals | - | - | (104) | - | (14) | (21) | | (1,059) | - | (1 198) |
| Amortization and depreciation charges | - | (989) | (1,114) | (205) | (306) | (61) | (22) | - | (424) | (3 121) |
| Amortization and depreciation write-off on disposal | - | - | (294) | (310) | (56) | (125) | (68) | - | (553) | (1 406) |
| **Carrying value at beginning of reporting year** | **232** | **17,291** | **1,502** | **1,162** | **432** | **471** | **-** | **119** | **2,692** | **23 901** |

| **Item** | **Land plots** | **Building, constructions and transmitting facilities** | **Machinery and equipment** | **Transport vehicles** | **Fixtures and fittings (furniture)** | **Other property and equipment** | **Other non-current tangible assets** | **Work in progress on property, equipment and intangible assets** | **Intangible assets** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost or valuation | 232 | 22,259 | 11,436 | 1,975 | 3,772 | 1,795 | 1,170 | 119 | 4,550 | 47 308 |
| Accumulated depreciation and amortization at beginning of previous year | - | (4,968) | (9,934) | (813) | (3,340) | (1,324) | (1,170) | - | (1,858) | (23 407) |
| Additions | - | - | 449 | - | 57 | - | 221 | 607 | 257 | 1 591 |
| Capital investments into completion of property and equipment and improvement of intangible assets | - | - | 363 | - | | 33 | 15 | (726) | 315 | - |
| **Disposals** (scrap value of assets written off) | - | - | (2) | - | | (5) | | | - | (7) |
| Amortization and depreciation charges | - | (989) | (498) | (378) | (249) | (54) | (236) | - | (570) | (2 974) |
| Amortization and depreciation write-off on disposal | - | - | (181) | - | (7) | (6) | (32) | | (59) | (285) |
| **Carrying value at end of reporting year** | **232** | **16,302** | **1,814** | **784** | **240** | **445** | **-** | **-** | **2,694** | **22 511** |
| **Cost or valuation** | **232** | **22,259** | **12,065** | **1,975** | **3,822** | **1,817** | **1,374** | **-** | **5,063** | **48 607** |
| **Accumulated depreciation and amortization at end of reporting period** | **-** | **(5,957)** | **(10251)** | **(1,191)** | **(3,582)** | **(1,372)** | **(1,374)** | | **(2,369)** | **(26 096)** |

As at 31.12.2016:

- The Bank does not have property, equipment or intangible assets with legal restrictions on their possession, use and disposal.
- The Bank has no property and equipment pledged as collateral.
- The Bank does not have temporarily disused property and equipment (due to conservation, reconstruction, etc.).
- The Bank has no property and equipment held for sale.
- The cost of fully depreciated (amortised) non-current assets was UAH 15,402 thousand (UAH 13,220 thousand in 2015).
- The Bank has no intangible assets with proprietary limitations.
- The Bank has no internally intangible assets.
- The Bank did not have any revaluation loss or surplus during the reporting period, and loss or surplus resulting from impairment losses recognized or reversed directly in equity.

# Note 11. Other financial assets

### Table 11.1. Other financial assets

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Receivables from customers | 302 | - |
| 2 | Receivables from banks | 860 | - |
| 3 | Receivables on payment card transactions | 3,434 | 1,147 |
| 4 | Restricted cash | 11,628 | 8,730 |
| 5 | Other financial assets | 1,574 | 29 |
| 6 | Impairment allowance for other financial assets | (939) | (2) |
| **7** | **Total other financial assets net of allowance** | **16,859** | **9,904** |

Restricted cash includes balances on the account *Due to bank in settlements*, where the security deposit with PJSC *Bank Pivdennyi* is recorded to ensure the performance under the contract to support VISA membership.

### Table 11.2. Analysis of movements in allowance for impairment of other financial assets during the reporting period

| Line | Movement of allowances | Receivables from banks | Other financial assets | Total |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1 | Balance at beginning of the period | **-** | **(2)** | **(2)** |
| 2 | (Increase)/decrease of the allowance for impairment during period | (860) | (77) | (937) |
| **3** | **Balance at end of the period** | **(860)** | **(79)** | **(939)** |

### Table 11.3. Analysis of other financial assets credit quality for the reporting period

| Line | Item | Receivables from banks | Receivables on payment card transactions | Derivatives in the available for sale portfolio | Restricted cash | Other financial assets | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Neither impaired nor overdue: | - | 3,434 | - | 11,628 | 1,850 | 16,912 |
| 1.1 | large borrowers with over 2 years' credit history | - | - | - | 11,628 | 303 | 11,931 |
| 1.2 | small entities | - | 3,434 | - | - | 1,547 | 4,981 |
| 2 | Individually impaired debt | 860 | - | - | - | 26 | 886 |
| 2.1 | 32-92 days overdue | - | - | - | - | 13 | 13 |
| 2.2 | 93-183 days overdue | | | | | 2 | 2 |
| 2.3 | 184-365 (366) days overdue | 860 | - | - | - | 10 | 870 |
| 2.4 | over 366 days overdue | - | - | - | - | 1 | 1 |
| 3 | Total other financial | 860 | 3,434 | - | 11,628 | 1,876 | 17,798 |

| Line | Item | Receivables from banks | Receivables on payment card transactions | Derivatives in the available for sale portfolio | Restricted cash | Other financial assets | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| | assets before allowance | | | | | | |
| **4** | **Impairment allowance for other financial assets** | **(860)** | **-** | **-** | **-** | **(79)** | **(939)** |
| **5** | **Total other financial assets net of allowance** | **-** | **3,434** | **-** | **11,628** | **1,797** | **16,859** |

**Table 11.4. Analysis of other financial assets credit quality for the previous period**

| Line | Item | Receivables from banks | Receivables on payment card transactions | Derivatives in the available for sale portfolio | Restricted cash | Other financial assets | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Neither impaired nor overdue: | - | 1,147 | - | 8,730 | 27 | 9,904 |
| 1.1 | large borrowers with over 2 years' credit history | - | - | - | 8,730 | - | 8,730 |
| 1.4 | small entities | - | 1,147 | - | - | 27 | 1,174 |
| 2 | Individually impaired debt | - | - | - | - | 2 | 2 |
| 2.1 | overdue up to 31 days | - | - | - | - | 1 | 1 |
| 2.2 | 184-365 (366) days overdue | - | - | - | - | 1 | 1 |
| 3 | Total other financial assets before allowance | - | 1,147 | - | 8,730 | 29 | 9,906 |
| **4** | **Impairment allowance for other financial assets** | **-** | **-** | **-** | **-** | **(2)** | **(2)** |
| **5** | **Total other financial assets net of allowance** | **-** | **1,147** | **-** | **8,730** | **27** | **9,904** |

## Note 12. Other assets

### Table 12.1. Other assets

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Receivables for assets acquired | 28 | 59 |
| 2 | Prepaid services | 9 | 11 |
| 3 | Precious metals | 56 | 81 |
| 4 | Other assets, including | 868 | 798 |
| 4.1 | Deferred expenses | 726 | 716 |
| 5 | Allowance | (2) | (12) |
| **6** | **Total other assets net of allowance** | **959** | **937** |

Deferred expenses as at 31.12.2016 include UAH 227 thousand for lease, UAH 182 thousand for audit, UAH 143 thousand for utilities, UAH 140 thousand for future period vacations, and as at 31.12.2015: UAH 222 thousand for lease, UAH 182 thousand for audit, and UAH 102 thousand for utilities.

## Note 13. Due to banks

### Table 13.1. Due to banks

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Correspondent accounts and overnight deposits with banks | 9 | - |
| **2** | **Total due to banks** | **9** | **-** |

All due to banks principal and interest outstanding in the reporting and previous periods are paid in time according to the payment schedule.

## Note 14. Due to clients

### Table 14.1. Due to clients

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Government and public organizations: | 263 | 424 |
| 1.1 | Current accounts | 263 | 424 |
| 2 | Other legal entities | 2,319,631 | 2,940,704 |
| 2.1 | Current accounts | 957,969 | 664,345 |
| 2.2 | Term deposits | 1,361,662 | 2,276,359 |
| 3 | Individuals | 1,209,724 | 1,525,690 |
| 3.1 | Current accounts | 87,940 | 98,109 |
| 3.2 | Term deposits | 1,121,784 | 1,427,581 |
| **4** | **Due to clients total** | **3,529,618** | **4,466,818** |

As at 31 December 2016 deposits of 10 largest customers with the Bank in the amount of UAH 1,997,938 thousand comprise 57% of due to customers (UAH 3,063,110 thousand and 69% as at 31 December 2015).

The carrying value of due to clients used as collateral for credit transactions and financial liabilities issued by the Bank is UAH 1,655,236 thousand as at 31.12.2016 (UAH 2,108,121 thousand as at 31.12.2015). These are term deposits of clients in the amount of UAH 1,643,350 thousand and cash collateral for financial liabilities in the amount of UAH 11,886 thousand, including UAH 1,655,204 thousand pledged as collateral of corporate loans and UAH 32 thousand – for loans to individuals (in 2015: UAH 2,107,897 thousand and UAH 224 thousand, accordingly).

**Table 14.2. Due to clients structure by economic activities**

| Line | Economic activity | Reporting period | | Previous period | |
|---|---|---|---|---|---|
| | | amount | % | amount | % |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Production and distribution of electricity, gas and water | 4,272 | 0.1% | 383,057 | 8.6% |
| 2 | Property, lease, engineering and services | 184,675 | 5.2% | 237,137 | 5.3% |
| 3 | Trade, vehicle repair, repair of household devices and personal appliances | 732,806 | 20.8% | 884,458 | 19.8% |
| 4 | Agriculture, hunting and forestry | 18,940 | 0.5% | 23,598 | 0.5% |
| | Construction | 22,402 | 0.6% | 18,113 | 0.4% |
| | Insurance and other financial services (reinsurance and private pension schemes) | 41,318 | 1.2% | 345,085 | 7.7% |
| | Land and pipeline transport | 418,156 | 11.8% | 2,124 | 0.1% |
| | Non-residents | 803,780 | 22.8% | 990,398 | 22.2% |
| 5 | Individuals | 1,209,724 | 34.3% | 1,525,690 | 34.2% |
| 6 | Other | 93,545 | 2.7% | 57,158 | 1.3% |
| **7** | **Total due to clients** | **3,529,618** | **100,0%** | **4,466,818** | **100,0%** |

## Note 15. Debt securities in issue

**Table 15.1. Debt securities in issue**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Deposit certificates | 118,028 | 32,978 |
| 2 | **Total** | **118,028** | **32,978** |

The Bank has no assets provided as collateral for securities issued by the Bank.

## Note 16 Other borrowings

**Table 16.1. Other borrowings**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Loans from non-resident financial organisations | 372,253 | 386,431 |
| 2 | Loans from the State Mortgage Institution | - | 159 |
| **3** | **Total** | **372,253** | **386,590** |

The note discloses cash received from non-resident financial companies in the amount of USD 13,578 thousand at 9.8 %, and accrued interest in the amount of USD 112 thousand.

## Note 17. Provisions for liabilities

### Table 17.1. Changes in provisions for liabilities for the reporting period

| Line | Movement in provisions | Credit related liabilities | Total |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Balance at beginning of period | 907 | 907 |
| 2 | Increase/(decrease) of provision | (167) | (167) |
| **3** | **Balance at end of the period** | **1,074** | **1,074** |

Provisions for liabilities listed in the table are charged under bank guarantees granted to legal entities, and unused balances on credit lines recorded on off-balance sheet accounts.

### Table 17.2. Changes in provisions for liabilities for the previous period

| Line | Movement of provisions | Credit related liabilities | Total |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Balance at beginning of period | 1,384 | 1,384 |
| 2 | Increase/(decrease) of provision | (477) | (477) |
| **3** | **Balance at end of the period** | **907** | **907** |

## Note 18. Other financial liabilities

### Table 18.1. Other financial liabilities

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Payables for other financial liabilities | 3,978 | 1,894 |
| 2 | Derivative financial liabilities | 3,579 | - |
| 3 | Expenses accrued | 2,105 | 2,383 |
| 4 | Other financial liabilities | 45 | 82 |
| **5** | **Total other financial liabilities** | **9,662** | **4,359** |

## Note 19. Other liabilities

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Accounts payable on taxes and charges other than income tax | 6,375 | 7,574 |
| 2 | Payables to the Bank employees | 2,314 | 1,959 |
| | Payables for assets acquired | 29 | - |
| 3 | Deferred income | 140 | 158 |
| **4** | **Total** | **8,858** | **9,691** |

## Note 20. Share capital and share premium

### Table 20.1 Share capital and share premium

| Line | Item | Shares outstanding (thousands) | Ordinary shares | Total |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1 | Balance at beginning of the previous period | 500 | 500,000 | 500,000 |
| 2 | Balance at end of the previous period (balance at beginning of the reporting period) | 500 | 500,000 | 500,000 |
| **3** | **Balance at end of the reporting period** | **500** | **500,000** | **500,000** |

The Bank did not issue shares during the year. In total, 500,000 ordinary registered shares with a nominal value UAH 1,000 per share were issued. Each ordinary registered share gives the shareholder one vote in all matters subject to decisions of the General Meeting of Shareholders.

Ordinary shares entitle their holders to a part of the Bank’s profit as dividends, to participate in the governance of the Bank, to obtain a share in the Bank's property in case of liquidation and other rights under the Law of Ukraine *On Joint Stock Companies*. Ordinary shares give their holders equal rights.

## Note 22. Interest income and expenses

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| INTEREST INCOME: | | | |
| 1 | Loans to customers | 530,451 | 571,728 |
| 1.1 | including impaired loans | (3,055) | (597) |
| 2 | Securities held to maturity | 3,989 | 11,532 |
| 3 | Due from other banks | 2,087 | 13,626 |
| 4 | Correspondent accounts with other banks | 1,493 | 3,613 |
| **5** | **Total interest income** | **538,020** | **600,499** |
| INTEREST EXPENSES: | | | |
| 6 | Corporate term deposits | (189,007) | (243,730) |
| 7 | Debt securities in issue | (8,232) | (1,308) |
| 8 | Other borrowings | (36,308) | (26,258) |
| 9 | Term deposits of individuals | (122,744) | (126,924) |
| 10 | Term deposits of other banks | (1,523) | (3,983) |
| 11 | Current accounts | (44,380) | (17,044) |
| 12 | Correspondent accounts | (8) | (41) |
| 13 | **Total interest expenses** | **(402,202)** | **(419,288)** |
| **14** | **Net interest income/(expenses)** | **135,818** | **181,211** |

## Note 23. Fee and commission income and expenses

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| FEE AND COMMISSION INCOME: | | | |
| 1 | Cash settlement operations | 27,471 | 20,509 |
| 2 | Securities operations | 8 | 5 |
| 3 | Trust activities | 2,142 | 2,314 |
| 4 | Granted guarantees | 13,830 | 3,141 |
| 5 | Transactions in foreign currency market | 8,409 | 9,602 |
| 6 | Other | 2,263 | 30 |
| 7 | **Total fee and commission income** | 863 | 667 |
| **8** | Cash settlement operations | **54,986** | **36,268** |
| FEE AND COMMISSION EXPENSES: | | | |
| 8 | Cash settlement operations | (6,922) | (3,097) |
| 10 | Securities operations | (88) | (45) |
| 11 | Transactions in foreign currency market | - | (24,250) |
| 12 | Other | (55) | (41) |
| **13** | **Total fee and commission expenses** | **(7,065)** | **(27,433)** |
| **14** | **Net fee and commission income/expenses** | **47,921** | **30,601** |

## Note 24. Other operating income

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Sublease income | 797 | 624 |
| 2 | Other | 144 | 3 619 |
| **3** | **Total operating income** | **941** | **4 243** |

The Other item includes:

- For the reporting period: the return of previously accrued interest on deposits prematurely terminated in the amount of UAH 25 thousand, fines and penalties received by the Bank amounting to UAH 39 thousand, consulting service fees of UAH 67 thousand, and insurance compensation of UAH 15 thousand.
- For the previous period: the return of previously accrued interest on deposits prematurely terminated in the amount of UAH 3,408, fines and penalties received by the Bank amounting to UAH 116 thousand, consulting service fees of UAH 82 thousand, and insurance compensation of UAH 13 thousand.

## Note 25. Administrative and other operating expenses

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Staff costs | 46,476 | 44,812 |
| 2 | Property and equipment depreciation | 2,168 | 2,675 |
| 3 | Amortization of software and other intangible assets | 806 | 447 |
| 4 | Maintenance of property, equipment and intangible assets, | 5,630 | 5,222 |
| 5 | Operating lease expenses | 8,071 | 7,448 |
| 6 | Other expenses related to property and equipment | 2,866 | 2,607 |
| 7 | Professional services | 2,483 | 5,573 |
| 8 | Marketing and advertisement expenses | 123 | 88 |
| 9 | Insurance expenses | 40,026 | 44,905 |
| 10 | Security costs | 8,122 | 1,296 |
| 11 | Encashment | 341 | 321 |
| 12 | Agents' commissions | 11,258 | 2,391 |
| 13 | Payment of taxes and charges other than income tax | 17,103 | 17,606 |
| 14 | Other | 8,131 | 2,171 |
| **15** | **Total administrative and other operating expenses** | **153,604** | **137,562** |

## Note 26. Income tax expenses/(benefits)

### Table 26.1. Income tax expenses/(benefits)

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Current income tax | (1,469) | (1,569) |
| 2 | Changes of deferred income tax | 203 | (1,520) |
| **3** | **Total income tax expenses/(benefits)** | **(1,266)** | **(3,089)** |

### Table 26.2. Reconciliation of the accounting profit (loss) and taxable income (loss)

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Profit/(loss) before taxation | 9,048 | 14,530 |
| 2 | Theoretical tax accruals using the applicable tax rate | (1,629) | (2,615) |
| ADJUSTMENT OF ACCOUNTING PROFIT (LOSS): | | | |
| 3 | Expenses not deductible for tax purposes but recognized for financial accounting purposes | (523) | (583) |
| 4 | Expenses deductible for tax purposes but not recognized for financial accounting purposes | 683 | 1,543 |
| 5 | Non-taxable income | 203 | (1,520) |
| 6 | Non-taxable income recognized for financial accounting purposes | - | 86 |
| **7** | **Current income tax** | **(1,266)** | **(3,089)** |

**In the year ended 31 December 2016, the differences between the tax and accounting profit arose due to the following factors:**

**Expenses** not deductible for income tax purposes but recognized for financial accounting purposes in the amount of UAH 523 thousand, namely:

- depreciation of property and equipment and amortization of intangible assets per financial accounting records in the amount of UAH 492 thousand;
- property, equipment and intangible write-off per financial accounting records in the amount of UAH 1 thousand;
- allocation to allowances for guarantees issued in the amount of UAH 30 thousand.

**Expenses** deductible for income tax purposes but not recognized for financial accounting purposes in the amount of UAH 683 thousand, including:

- depreciation of property and equipment and amortization of intangible assets per tax accounting records in the amount of UAH 537 thousand;
- property, equipment and intangible write-off per tax accounting records in the amount of UAH 2 thousand;
- a portion of the negative difference between the allowance estimated according to chapter III of the Tax Code of Ukraine in the amount of UAH 144 thousand.

**In the year ended 31 December 2015, the differences between the tax and accounting profit arose due to the following factors:**

**Expenses** not deductible for income tax purposes but recognized for financial accounting purposes in the amount of UAH 583 thousand, namely**:**

- depreciation of property and equipment and amortization of intangible assets per financial accounting records in the amount of UAH 558 thousand;
- property, equipment and intangible write-off per financial accounting records in the amount of UAH 25 thousand.

**Expenses** deductible for income tax purposes but not recognized for financial accounting purposes in the amount of UAH 1,543 thousand, including:

- tax records – UAH 638 thousand;
- property, equipment and intangible write-off per tax accounting records depreciation of property and equipment and amortization of intangible assets per in the amount of UAH 26 thousand;
- allocations to the Deposit Guarantee Fund in the amount of UAH 567 thousand;
- provision for vacations in the amount of UAH 169 thousand;
- a portion of the negative difference between the allowance estimated according to chapter III of the Tax Code of Ukraine in the amount of UAH 143 thousand.

**Table 26.3. Tax effects of the recognition of the deferred tax assets and liabilities in the reporting period**

| Line | Item | Balance at beginning of the period | Recognised in profit or loss | Balance at end of the period |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1 | Tax effect of temporary differences that decrease (increase) the amount of tax and tax losses carried forward | | | |
| 1.1 | Property and equipment | (80) | 203 | 123 |
| **2** | **Net deferred tax assets (liabilities)** | **(80)** | **203** | **123** |
| **3** | **Deferred tax assets recognised** | **(80)** | **203** | **123** |

**Table 26.4. Tax effects of the recognition of the deferred tax assets and liabilities in the previous period**

| Line | Item | Balance at beginning of the period | Recognised in profit or loss | Balance at end of the period |
|---|---|---|---|---|
| 1 | Tax effect of temporary differences that decrease (increase) the amount of tax and tax losses carried forward | | | |
| 1.1 | Property and equipment | 264 | (344) | (80) |
| 1.2 | Provision for vacations | 169 | (169) | - |
| 1.3 | Deposit Guarantee Fund | 567 | (567) | - |
| 1.4 | Allowance for due from other banks | 440 | (440) | - |
| **2** | **Net deferred tax assets (liabilities)** | **1,440** | **(1,520)** | **(80)** |
| **3** | **Deferred tax assets recognised** | **1,440** | **-** | **-** |
| **4** | **Deferred tax liabilities recognised** | **-** | **-** | **(80)** |

## Note 27. Earnings/(loss) per ordinary share

**Table 27.1. Net and adjusted earnings/(loss) per ordinary share**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 2 | Profit (loss) for the year | 7,782 | 11,441 |
| 3 | Average annual number of ordinary shares outstanding (thousands) | 500 | 500 |
| **4** | **Net and adjusted earnings per ordinary share (UAH/share)** | **15.56** | **22.88** |

**Table 27.2. Computation of profit (loss) attributable to ordinary and preference shareholders of the Bank**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Profit/(loss) attributable to the owners of the Bank | 7,782 | 11,441 |
| 2 | Dividends on ordinary shares | 10,869 | 2,333 |
| 3 | Retained earnings/(loss) for the year | 7,782 | 11,441 |
| 4 | Dividends on ordinary shares payable within a year | 10,869 | 2,333 |
| 5 | Profit/(loss) for the year attributable to ordinary equity holders | 7,782 | 11,441 |

## Note 28. Dividends

| Line | Item | Reporting period | | Previous period | |
|---|---|---|---|---|---|
| | | on ordinary shares | on preference shares | on ordinary shares | on preference shares |
| 1 | Balance at beginning of the period | - | - | - | - |
| 2 | Dividends payable during the period | 10,869 | - | 2,333 | - |
| 3 | Dividends paid during the period | 10,869 | - | 2,333 | - |
| 4 | Balance at end of the period | - | - | - | - |
| 5 | Dividends per share (UAH/share) | 21.74 | - | 4.67 | - |

The General Meeting of Shareholders decides on the procedure of dividend payment according to Ukrainian law and the Charter of the Bank. The same amount of dividends is accrued on each ordinary share.

Dividends are paid once a year following the result of the calendar year. Dividends are paid from net income of the reporting year and/or retained earnings in the amount set by the General Meeting of Shareholders.

Dividends to shareholders are paid once in its full amount within the period set by the General Meeting of Shareholders in their decision on dividend payment. Dividends are paid within six months after the reporting year end.

## Note 29. Operating segments

**Table 29.1. Income, expenses and results of reporting segments for the reporting period**

| Line | Item | Reporting segment | | | Other segments and operations | Elimination | Total |
|---|---|---|---|---|---|---|---|
| | | Services to corporate clients | Services to individuals | Interbank business | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Income from third party clients: | | | | | | |
| 1.1 | Interest income | 528,515 | 1,937 | 3,580 | 3,988 | - | 538,020 |
| 1.2 | Fee and commission income | 42,110 | 9,630 | 3,246 | - | - | 54,986 |
| 1.3 | Other operating income | 80 | 72 | - | 811 | - | 963 |
| 2 | Total segment income | 570,704 | 11,640 | 6,826 | 4,800 | - | 593,970 |
| 3 | Interest expenses | (230,240) | (134,123) | (1,531) | (36,308) | - | (402,202) |
| 4 | Allocation to allowance for impairment of loans and due from other banks | (24,405) | (233) | (12,531) | - | - | (37,169) |
| 5 | Allocation to allowance for impairment of accounts receivable | - | - | (860) | (67) | - | (927) |
| 6 | Results of trade in other financial instruments | - | - | | (10,310) | - | (10,310) |
| 7 | Gains on trading in foreign currencies | - | - | 8,699 | - | - | 8,699 |
| 8 | Foreign currency transactions translation results | - | - | 17,824 | - | - | 17,824 |
| 9 | Fee and commission expenses | - | (3,851) | (3,070) | (143) | - | (7,065) |
| 10 | Allocation to provisions for liabilities | (167) | - | - | - | - | (167) |
| 11 | Administrative and other operating expenses | (40,026) | - | - | (113,578) | - | (153,604) |
| 12 | Income tax expense | | | | (1,266) | | (1,266) |
| **13** | **SEGMENT RESULT: Profit** | **275,865** | **(126,567)** | **(11,167)** | **(130,349)** | **-** | **7,782** |

**Table 29.2. Income, expenses and results of reporting segments for the previous period**

| Line | Item | Reporting segment | | | Other segments and operations | Elimination | Total |
|---|---|---|---|---|---|---|---|
| | | Services to corporate clients | Services to individuals | Interbank business | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Income from third party clients: | | | | | | |
| 1.1 | Interest income | 569,489 | 2,240 | 17,239 | 11,532 | - | 600,499 |
| 1.2 | Fee and commission income | 32,842 | 1,330 | 2,096 | - | - | 36,268 |
| 1.3 | Other operating income | 3,693 | 575 | - | - | - | 4,268 |
| 3 | Total segment income | 606,024 | 4,144 | 19,335 | 11,532 | - | 641,035 |
| 4 | Interest expenses | (256,643) | (132,362) | (4,024) | (26,258) | - | (419,288) |
| 5 | Allocation to allowance for impairment of loans and due from other banks | (26,762) | 705 | (39,306) | - | - | (65,363) |
| 6 | Allocation to allowance for impairment of accounts receivable | - | - | - | (13) | - | (13) |
| 7 | Results of trade in securities available for sale | - | - | - | 254 | - | 254 |
| 8 | Results of trade in other financial instruments | - | - | | 10,899 | - | 10,899 |
| 9 | Gains on trading in foreign currencies | - | - | 56,719 | - | - | 56,719 |
| 10 | Foreign currency transactions translation results | - | - | (66,960) | - | - | (66,961) |
| 11 | Fee and commission expenses | - | (3,404) | (2,163) | (100) | - | (5,667) |
| 12 | Allocation to provisions for liabilities | 477 | - | - | - | - | 477 |
| 13 | Administrative and other operating expenses | (43,005) | - | - | (94,557) | - | (137,562) |
| 14 | Income tax expense | | | | (3,089) | | (3,089) |
| **15** | **SEGMENT RESULT: Profit** | **280,090** | **(130,918)** | **(36,399)** | **(101,332)** | **-** | **11,441** |

**Table 29.3. Assets and liabilities of reporting segments for the reporting period**

| Line | Item | Reporting segment | | | Other segments and operations | Total |
|---|---|---|---|---|---|---|
| | | Services to corporate clients | Services to individuals | Interbank business | | |
| SEGMENT ASSETS | | | | | | |
| 1 | Segment assets | 4,138,941 | 4,145 | 366,858 | - | 4,509,944 |
| 2 | Total segment assets | 4,138,941 | 4,145 | 366,858 | - | 4,509,944 |
| 3 | Unallocated assets | - | - | - | 70,540 | 70,540 |
| **4** | **Total assets** | **4,138,941** | **4,145** | **366,858** | **70,540** | **4,580,484** |
| SEGMENT LIABILITIES | | | | | | |
| 5 | Segment liabilities | 2,692,147 | 1,327,752, | 9 | - | 3,647,655 |
| 6 | Total segment liabilities | 2,692,147 | 1327,752 | 9 | - | 4,019,908 |
| 7 | Unallocated liabilities | - | - | - | 19,594 | 19,594 |
| **8** | **Total liabilities** | **2,692,147** | **1,327,752** | **-** | **19,594** | **4,039,502** |
| OTHER SEGMENT ITEMS | | | | | | |
| 9 | Capital investments | - | - | - | 1,591 | 1,591 |
| 10 | Depreciation and amortisation | - | - | - | (2,974) | (2,974) |

**Table 29.4. Assets and liabilities of reporting segments for the previous period**

| Line | Item | Reporting segment | | | Other segments and operations | Total |
|---|---|---|---|---|---|---|
| | | Services to corporate clients | Services to individuals | Interbank business | | |
| SEGMENT ASSETS | | | | | | |
| 1 | Segment assets | 5,039,731 | 17,272 | 333,299 | - | 5,390,302 |
| 2 | Total segment assets | 5,039,731 | 17,272 | 333,299 | - | 5,390,302 |
| 3 | Unallocated assets | - | - | - | 55,429 | 55,429 |
| **4** | **Total assets** | **5,039,731** | **17,272** | **333,299** | **55,429** | **5,445,731** |
| SEGMENT LIABILITIES | | | | | | |
| 5 | Segment liabilities | 3,327,719 | 1,558,668 | - | - | 4,886,387 |
| 6 | Total segment liabilities | 3,327,719 | 1,558,668 | - | - | 4,886,387 |
| 7 | Unallocated liabilities | - | - | - | 15,276 | 15,276 |
| **8** | **Total liabilities** | **3,327,719** | **1,558,668** | **-** | **15,276** | **4,901,663** |
| OTHER SEGMENT ITEMS | | | | | | |
| 9 | Capital investments | - | - | - | 3,347 | 3,347 |
| 10 | Depreciation and amortisation | - | - | - | (3,121) | (3,121) |

For the purposes of financial reporting the Bank operations are allocated to the following segments:

Services to corporate clients: this business segment services current accounts of corporate clients, raises funds, attracts deposits, provides overdraft facilities, services card accounts, provides loans and other types of finance and effects foreign currency transactions.

Services to individuals: provision of banking services to private individuals. This segment provides the same banking services as the corporate segment as well as opening and servicing of individual client accounts, including accounts for personal use, current and saving accounts, placement of deposits and servicing of payment cards for remuneration projects.

Interbank business: interbank market transactions, transactions with securities issued by the NBU and foreign currency transactions.

Other segments and operations: this includes transactions that support the Bank's operation, property, equipment and intangible assets, deferred tax assets, prepayments and receivables related to the administrative and business operations of the Bank.

**Table 29.5. Information on geographical regions**

| Line | Item | Reporting year | | | Previous year | | |
|---|---|---|---|---|---|---|---|
| | | Ukraine | Other countries | Total | Ukraine | Other countries | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Revenue from external clients | 593,970 | - | 593,970 | 641,035 | - | 641,035 |
| 2 | Property and equipment | 19,817 | - | 19,817 | 21,104 | - | 21,104 |

## Note 30. Financial risk management

The goals of financial risk management in the Bank are 1) to ensure the profitability of operations under moderate risk levels; 2) adherence to all requirements of the National Bank of Ukraine on risk management; 3) alignment of risk management standards with the guidelines of Basel Committee (in particular, changes in regulations of risk management in the Bank provide for a gradual transition from Basel I to Basel II-III).

The risk management system in the Bank is designed to engage all management levels: the Supervisory Board determines the Bank development strategy, including risk management; the Bank Management Board is responsible for daily management of the Bank's operations, which includes, but is not limited to, maintaining the moderate level of risks; the Analysis and Risk Management Department provides direct analysis, monitoring and control of risks with the most significant impact on the Bank's performance.

In addition, collegial bodies (a Credit Committee, an Asset and Liability Management Committee, a Tariff Committee, and a Tender Committee) are established on a permanent basis and operating in the Bank. Their tasks include operational decisions on tactical objectives of risk management.

The level of the Bank's risk management system fully conforms to the scope and complexity of transactions performed. The Bank uses the Asset and Liability Analyser, a modern analytical module that automatically creates management reports for management on principal risk types. As a result, prompt decisions can be taken to minimize any adverse effect of risks on the Bank financial performance.

Financial risks managed by the Bank on a systematic (daily) basis include the traditional risks like credit risk, market risk (interest rate, currency and price risks) and liquidity risk.

### Credit risk

Credit risk (the most significant risk among all) is the risk that a borrower fails to repay the loan and interest thereon. This risk is minimized through clear credit procedures for credit operations and deliberate techniques implemented by the Bank to analyse a borrower's solvency, as well as through lending primarily under the liquid collateral (property, property rights for cash deposits of banks etc.).

Methods used by the Banks for risk management include: setting limits on credit operations (for a borrower, an industry, related parties etc.); adherence to economic standards of the NBU (standards of credit risk); the use of modern methods for the analysis of borrowers' operations; setting credit ratings according to the Bank's own scale on the basis of the borrowers' financial stability; insurance of collateral and financial risks; the use of different measurement methods of the collateral market value (profit, expense methods and the method of analogues); stress testing of the credit portfolio taking into account the changes in the business environment).

Furthermore, the Bank set limits of the branches' authority, within which the Credit Commissions at branches may lend to their own clients. All credit operations beyond these limits are approved by the Credit Commission at the Head Office.

In the course of credit operations, the Bank complies with credit risk standards established by the National Bank of Ukraine (the *Instruction on the Regulation of Banks in Ukraine*, approved by the National Bank of Ukraine on 28.08.2001 No 368):

- maximum credit risk amount per one counterparty (H7);
- large credit risks (H8). Credit risk taken in respect of one counterparty or a group of related counterparties is considered large if the total claims to this counterparty or the group of related counterparties and all off-balance sheet commitments granted by the Bank to the counterparty or the group of related counterparties exceeds 10% of the Bank's regulatory capital.

The values of credit risk standards (H7, H8 and H9) are calculated according to the requirements of the National Bank of Ukraine and are monitored by the Bank management on a daily basis. As at 31.12.2015, they were as follows: H7 – 21.25% (the standard is 25% maximum), H8 – 424,85% (the standard is 800% maximum), and H9 – 306.42% (the standard is 25% maximum) (in 2015: H7 – 23.27%, H8 – 450.22%, and H9 – 0.06%).

The National Bank of Ukraine approved a 3-year Action Plan for the Bank to bring its operations to conformity with the requirements of legislation and the regulations of the National Bank of Ukraine with regard to related party transactions, namely, to bring H9 indicator to its standard value. The Bank adheres to the Action Plan.

The maximum credit risk of the Bank is as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Statement of financial position** | | |
| Cash and cash equivalents (excluding cash on hand) | 355,230 | 279,745 |
| Due from other banks | - | 44,824 |
| Loans and advances to customers | 4,143,086 | 5,055,856 |
| Other financial assets | 16,859 | 9,904 |
| | **4,432,110** | **5,390,329** |
| **Off balance-sheet items** | | |
| Credit related commitments | 390,349 | 778,702 |
| Guarantees | 470,144 | 210,091 |
| | **860,493** | **988,793** |

The Bank monitors credit quality of its financial assets through the implementation of internal and external credit ratings of borrowers. Credit quality by type of assets regarding credit related items in the statement of financial position on the basis of external rating and the credit rating system implemented in the Bank, is disclosed in Notes 7, 8 and 9.

**Market risk**

Market risk is the risk of unforeseen losses of the Bank arising from adverse changes in interest rates, foreign exchange rates, share prices, etc. Under the classification of the Basel Committee, market risks comprise currency risk, interest rate risk and price risk. Market risk under the above classification is managed centrally by the Risk Management Department using modern methods of measuring, assessment and control their level. The reports on market risk are provided to the Asset and Liability Management Committee that subsequently makes decisions on adjustment of risk positions taking into account expected/forecast levels of exchange rates, interest rates and security prices.

The Bank activities are mostly affected by currency and interest rate risks, whereas price risk does not actually exist, because at the end of 2016, the Bank has insignificant balances of variable income securities purchased earlier (UAH 784 thousand).

**Currency risk**

Currency risk (the market component of risk) is the risk of existing or potential effects of adverse fluctuations of exchange rates and precious metal values on the Bank's proceeds. The Bank minimizes this risk through strict adherence to the currency position limits in the course of foreign exchange transactions.

The methods used by the Bank for its currency risk management include VAR methodology, setting limits of maximum amounts of a currency position, adherence to economic standards of the NBU (currency risk standards), currency risks hedges, back testing, and stress testing under various scenarios of financial market development.

**Table 30.1. Currency risk**

| Line | Currency | At reporting period end | | | | At previous period end | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Monetary assets | Monetary liabilities | Derivatives | Net position* | Monetary assets | Monetary liabilities | Derivat ives | Net position |
| 1 | | 2,790,920 | 2,639,749 | (160,426) | (9,254) | 1,902,373 | 1,852,618 | - | 49,755 |
| 2 | Euro | 587,821 | 600,386 | - | (12,565) | 150,288 | 151,610 | - | (1,322) |
| 3 | Precious metals | 55 | - | - | 55 | 183 | 274 | - | (91) |
| 4 | Other currencies (convertible) | 488 | 76 | - | 412 | 1,307 | 1,069 | - | 248 |
| 5 | Other currencies (non-convertible) | 1,656 | 992 | - | 672 | 1,656 | 1,559 | - | 97 |
| **6** | **Total*** | **3,380,940** | **3,241,203** | **(160,426)** | **(20,680)** | **2,055,817** | **2,007,130** | **-** | **48,687** |

*** The Net Position graph** shows the total position on all currencies.
Precious metals: gold – 50, silver – 5. (2015: gold – (95), silver – 4).
Other currencies (freely convertible): British pounds sterling – 368, Swiss francs – 44. (2015:British pounds sterling – 208, Swiss francs – 40).
Other currencies (non-convertible): Russian roubles – 524, Polish złoty – 148. (2015: Russian roubles – 52, Polish złoty – 45).

**Table 30.2. Change of profit or loss and equity as a result of possible changes in hryvnia official exchange rate to foreign currencies set on the reporting date, all other variable characteristics remaining fixed**

| Line | Item | At reporting period end | | At previous period end | |
|---|---|---|---|---|---|
| | | impact on profit/(loss) | impact on equity | impact on profit/(loss) | impact on equity |
| 1 | USD appreciation by 20% | (1,851) | (1,851) | 9,952 | 9,952 |
| 2 | USD depreciation by 20% | 1,851 | 1,851 | (9,952) | (9,952) |
| 3 | Euro appreciation by 20% | (2,513) | (2,513) | (264) | (264) |
| 4 | Euro depreciation by 20% | 2,513 | 2,513 | 264 | 264 |
| 5 | GBP appreciation by 20% | 74 | 74 | 52 | 52 |
| 6 | GBP depreciation by 20% | (74) | (74) | (52) | (52) |
| 7 | Appreciation of other currencies and banking metals | 154 | 154 | 16 | 16 |
| 8 | Appreciation of other currencies and banking metals | (154) | (154) | (16) | (16) |

**Table 30.3. Change of profit or loss and equity as a result of possible changes in hryvnia weighted average annual exchange rate to foreign currencies set on the reporting date, all other variable characteristics remaining fixed**

| Line | Item | Weighted average exchange rate of the reporting period | | Weighted average exchange rate of the previous period | |
|---|---|---|---|---|---|
| | | impact on profit/(loss) | impact on equity | impact on profit/(loss) | impact on equity |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | USD appreciation by 20% | (1,181) | (1,181) | 9,096 | 9,096 |
| 2 | USD depreciation by 20% | 1,181 | 1,181 | (9,096) | (9,096) |
| 3 | Euro appreciation by 20% | (2,444) | (2,444) | (244) | (244) |
| 4 | Euro depreciation by 20% | 2,444 | 2,444 | 244 | 244 |
| 5 | GBP appreciation by 20% | 92 | 92 | 48 | 48 |
| 6 | GBP depreciation by 20% | (92) | (92) | (48) | (48) |
| 7 | Appreciation of other currencies and banking metals | 98 | 98 | 16 | 16 |
| 8 | Appreciation of other currencies and banking metals | (98) | (98) | (16) | (16) |

**Interest rate risk**

Interest rate risk is the risk of existing or potential effects of adverse fluctuations in the interest rates on the Bank proceeds. This risk is minimized through balancing assets and liabilities sensitive to changes in the interest rate.

The methods used by the Bank in the interest rate risk management include GAP analysis and setting the limits on maximum gaps between assets and liabilities sensitive to changes in the interest rate, managing the structure of assets and liabilities using spread indicators, net interest margin, profitability/cost of individual interest-bearing assets/liabilities (by currency); implementing a balanced pricing policy to maximize net interest income, and stress testing under various scenarios of financial market development.

**Table 30.4. General analysis of the interest risk**

| Line | Item | On demand and less than 1 month | 1-6 months | 6-12 months | More than 1 year | Not prone to interest rate risk | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Reporting period | | | | | | | |
| 1 | Total financial assets | 2,077,684 | 637,861 | 516,658 | 910,882 | 437,398 | 4,580,484 |
| 2 | Total financial liabilities | 2,581,638 | 1,250,655 | 120,370 | 67,236 | 19,603 | 4,039,502 |
| **3** | **Net interest rate gap at end of the reporting period** | **(503,954)** | **(612,794)** | **396,289** | **843,646** | **417,795** | **540,982** |
| Previous period | | | | | | | |
| 4 | Total financial assets | 2,669,882 | 1,184,077 | 1,092,029 | 155,901 | 343,842 | 5,445,731 |
| 5 | Total financial liabilities | 2,234,262 | 1,749,389 | 54,089 | 52,051 | 811,871 | 4,901,662 |
| **6** | **Net interest rate gap at end of the previous period** | **435,620** | **(565,312)** | **1,037,940** | **103,850** | **(468,029)** | **544,069** |

The table shows interest rate sensitive assets and liabilities at book value and maturity terms.

Interest on all assets and liabilities presented in the table is accrued at fixed rates.

The Bank assesses its interest rate risk by the scenario of the parallel movement of the profitability curve towards an increase in interest rates by 200 basis points for the main currencies (UAH, USD and EUR). As at 31 December 2016, the Bank is prone to interest rate risk that, if occurred, can affect net interest income within a one-year timeframe: a decrease by UAH 957 thousand is possible (a UAH 15,832 thousand decrease as at 31 December 2015).

**Table 30.5. Monitoring of interest rates on financial instruments**

(%)

| Line | Item | Reporting period | | | | Previous period | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | UAH | USD | EUR | Other | UAH | USD | EUR | Other |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Assets | | | | | | | | | |
| 1 | Cash and cash equivalents | 11.69 | 0.29 | 0.00 | - | 19.56 | 6.75 | - | - |
| 2 | Due from other banks | 14.93 | 0.76 | 2.00 | - | 27.41 | 1.81 | 1.45 | 5.32 |
| 3 | Loans to customers | 16.10 | 10.74 | 9.51 | - | 18.27 | 10.95 | 11.06 | - |
| Liabilities | | | | | | | | | |
| 8 | Due to banks | 18.05 | 0.03 | - | - | 20.73 | - | - | - |
| 9 | Due to clients: | | | | | | | | |
| 9.1 | current accounts | 5.38 | 4.54 | - | - | 3.99 | 0.30 | 0.19 | - |
| 9.2 | term deposits | 20.88 | 9.40 | 6.09 | - | 22.06 | 8.98 | 7.43 | - |
| 10 | Debt securities in issue | 21.32 | 9.93 | - | - | 22.07 | 9.93 | - | - |
| 11 | Other borrowings | 13.50 | 9.80 | - | - | 13.50 | 9.80 | - | - |

Information in the table is presented at the average interest rate. The interest rate is calculated as annualized percentage.

**Geographical risk**

**Table 30.6. Analysis of geographical concentration of financial assets and liabilities for the reporting period**

| Line | Item | Ukraine | OECD | Other countries | Total |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| Assets | | | | | |
| 1 | Cash and cash equivalents | 395,282 | - | 1,338 | 396,620 |
| 2 | Due from other banks | - | - | - | - |
| 3 | Loans to customers | 4,143,086 | - | - | 4,143,086 |
| 4 | Other financial assets | 16,859 | - | - | 16,859 |
| **5** | **Total financial assets** | **4,555,227** | **-** | **1,338** | **4,556,565** |
| Liabilities | | | | | |
| 6 | Due to banks | 9 | - | - | 9 |
| 7 | Due to clients | 2,725,807 | 23 | 803,788 | 3,529,618 |
| 8 | Financial liabilities measured at fair value through profit or loss | 3,579 | - | - | 3,579 |

| Line | Item | Ukraine | OECD | Other countries | Total |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 9 | Debt securities in issue | 118,028 | - | - | 118,028 |
| 10 | Other borrowings | - | - | 372,253 | 372,253 |
| 11 | Other financial liabilities | 6,083 | - | - | 6,083 |
| **12** | **Total financial liabilities** | **2,853,506** | **23** | **1,176,041** | **4,029,570** |
| **13** | **Net balance position on financial instruments** | **1,701,721** | **(23)** | **(1174,703)** | **526,995** |
| 14 | Credit related liabilities | 1,001,854 | - | - | 1,001,854 |

Geographical risk concentrations are determined by an analysis of assets and liabilities for their origin (place of registration). Institutions that operate in different economic environments caused by various political, regulatory and legal economic conditions are geographic risk sensitive. A wrong choice of cash flow direction can lead to financial losses.

As the Bank operates on the territory of Ukraine only, geographical risk is considered insignificant, i.e. it has no impact on profit and equity of the Bank.

**Table 30.7. Analysis of geographical concentration of financial assets and liabilities for the previous period**

| Line | Item | Ukraine | OECD | Other countries | Total |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| Assets | | | | | |
| 1 | Cash and cash equivalents | 172,648 | 182,343 | 95 | 355,086 |
| 2 | Due from other banks | - | | - | - |
| 3 | Loans to customers | 5,055,856 | - | - | 5,055,856 |
| 4 | Other financial assets | 9,904 | - | - | 9,904 |
| **5** | **Total financial assets** | **5,238,708** | **182,343** | **95** | **5,420,846** |
| Liabilities | | | | | |
| 6 | Due to banks | - | - | - | - |
| 7 | Due to clients | 3,476,392 | 27 | 990,399 | 4,466,818 |
| | Debt securities in issue | 32,978 | - | - | 32,978 |
| 8 | Other borrowings | 159 | - | 386,431 | 386,590 |
| 9 | Other financial liabilities | 4,359 | - | - | 4,359 |
| **10** | **Total financial liabilities** | **3,513,888** | **27** | **1,376,830** | **4,890,745** |
| **11** | **Net balance position on financial instruments** | **1,725,904** | **180,942** | **(1376745)** | **530,101** |
| 12 | Credit related liabilities | 1,061,168 | - | - | 1,061,168 |

**Liquidity risk**

Liquidity risk is the risk that the Bank will not be able to discharge its liabilities to the clients and counterparties on a timely basis and in full. This risk is minimized through balancing of the Bank's structure of assets and liabilities by repayment/maturity dates (including the balancing by basic currencies used by the Bank in its transactions).

The methods used by the Banks in liquidity risk management include GAP analysis and setting limits of maximum gaps of liquidity, using a payment schedule, adherence to the liquidity ratios (including mandatory economic standards of the NBU and mandatory standards for allowances), diversification of assets and liabilities, maintaining an operational emergency action plan, stress testing of the Bank liquidity positions under various scenarios of financial market development.

**Table 30.8. Maturity analysis of financial liabilities for the reporting period**

| Line | Item | On demand and less than 1 month | 1-3 months | 3-12 months | 12 months to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Due to banks | 9 | - | - | - | - | 9 |
| 2 | Due to clients | 2,207,582 | 1,062,713 | 228,893 | 91,441 | - | 3,590,629 |
| 3 | Other borrowings | 374,786 | - | - | - | - | 374,786 |
| 4 | Other financial liabilities | 9,662 | - | - | - | - | 9,662 |
| 5 | Financial guarantees | 133,621 | 130,548 | 187,569 | 18,406 | - | 470,144 |
| 6 | Other credit related liabilities | 25,277 | - | 83,023 | - | - | 108,300 |
| **7** | **Total potential future payments on financial liabilities** | **2,750,928** | **1,193,261** | **499,485** | **109,847** | **-** | **4,553,521** |

Maturities are determined between the reporting date and the date of settlement according to contracts. The amounts represent contractual undiscounted cash flows, which differ from amounts shown in the statement of financial position as the amounts therein are based on discounted cash flows.

**Table 30.9. Maturity analysis of financial liabilities for the previous period**

| Line | Item | On demand and less than 1 month | 1-3 months | 3-12 months | 12 months to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Due to banks | - | - | - | - | - | - |
| 2 | Due to clients | 2,627,499 | 235,871 | 1,672,724 | 70,789 | - | 4,606,883 |
| 3 | Other borrowings | 386,431 | - | 171 | - | - | 386,602 |
| 4 | Other financial liabilities | 207 | 480 | 3,235 | 437 | - | 4,359 |
| 5 | Financial guarantees | 16,600 | 46,815 | 141,571 | 5,181 | - | 210,167 |
| 6 | Other credit related liabilities | 6,282 | - | 73,282 | - | - | 79,565 |
| **7** | **Total potential future payments on financial liabilities** | **3,037,019** | **283,166** | **1,890,983** | **76,407** | **-** | **5,287,576** |

**Table 30.10. Maturity analysis of financial liabilities based on expected maturities for the reporting period**

| Line | Item | On demand and less than 1 month | 1-3 months | 3-12 months | 12 months to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Assets | | | | | | | |
| 1 | Cash and cash equivalents | 396,620 | - | - | - | - | 396,620 |
| 2 | Due from other banks | - | - | - | - | - | - |
| 3 | Loans to customers | 2,077,684, | 407,372, | 747,147, | 864,653, | 46,229, | 4,143,086 |
| 4 | Other financial assets | 5,231, | 11,628, | - | - | - | 16,859 |
| **5** | **Total financial assets** | **2,479,535** | **419,000** | **747,147** | **864,653** | **46,229** | **4,556,565** |
| Liabilities | | | | | | | |
| 6 | Due from other banks | 9, | - | - | - | - | 9 |
| 7 | Due to clients | 2,207,582, | 1,041,875, | 212,924, | 67,236, | - | 3,529,618 |
| 8 | Debt securities in issue | 1,802 | 24,339 | 91,887 | - | - | 118,028 |
| 9 | Other borrowings | 372,253 | - | - | - | - | 372,253 |
| 10 | Other financial liabilities | 9,662, | - | - | - | - | 9,662 |
| **11** | **Total financial liabilities** | **2,591,309** | **1,066,214** | **304,811** | **67,236** | **-** | **4,029,570** |
| **12** | **Net liquidity gap as at 31 December** | **(111,774)** | **(647,214)** | **442,336** | **797,417** | **46,229** | **526,995** |
| **13** | **Total liquidity gap as at 31 December** | **(111,774)** | **(758,987)** | **(316,651)** | **480,766** | **526,995** | **526,995** |

Financial assets and liabilities in the table are presented at carrying values, i.e. based on discounted cash flows.

**Table 30.11 Maturity analysis of financial liabilities based on expected maturities for the previous period**

| Line | Item | On demand and less than 1 month | 1-3 months | 3-12 months | 12 months to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Assets | | | | | | | |
| 1 | Cash and cash equivalents | 355,086 | - | - | - | - | 355,086 |
| 2 | Due from other banks | - | - | - | - | - | - |
| 3 | Loans to customers | 2,684,690 | 114,672 | 2,100,977 | 155,321 | 196 | 5,055,856 |
| 4 | Other financial assets | 1,220 | 6 | 8,678 | - | - | 9,904 |
| **5** | **Total financial assets** | **3,040,996** | **114,678** | **2,109,655** | **155,321** | **196** | **5,420,846** |
| Liabilities | | | | | | | |
| 6 | Due from other banks | - | - | - | - | - | - |
| 7 | Due to clients | 2,627,499 | 231,246 | 1,556,022 | 52,051 | - | 4,466,818 |
| 8 | Debt securities in issue | 14,801 | 5,921 | 12,256 | - | - | 32,978 |
| 9 | Other borrowings | 386,431 | - | 159 | - | - | 386,590 |

| Line | Item | On demand and less than 1 month | 1-3 months | 3-12 months | 12 months to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 10 | Other financial liabilities | 207 | 480 | 3,235 | 437 | - | 4,359 |
| **11** | **Total financial liabilities** | **3028938** | **237,647** | **1571672** | **52,488** | **-** | **4,890,745** |
| **12** | **Net liquidity gap as at 31 December** | **12,058** | **(122,969)** | **537,983** | **102,833** | **196** | **530,101** |
| **13** | **Total liquidity gap as at 31 December** | **12,058** | **(110,911)** | **427,072** | **529,905** | **530,101** | **530,101** |

## Note 31. Capital management

Capital management of the Bank is aimed primarily at the protection from possible risks inherent in its activities The Bank controls its capital adequacy through both the adherence to mandatory economic standards of the National Bank of Ukraine (capital ratios) and recommended indices established by the Basel Capital Accord. In particular, the Bank calculates its capital adequacy quarterly in accordance with the recommendations of the Basel II (quantitative measurement of credit, market and operational risk carried out according to the Standardized Approach).

The main objective of the Bank capital management is to ensure balanced growth of assets and regulatory capital. In particular, the Bank policy related to active and passive operations, a great attention is paid to the improvement of the risk weighted assets structure considering the risk ratio (to prevent an excessive proportion of assets weighed on 100% risk). Furthermore, in order to improve capitalization (if necessary) the Bank may refuse to pay dividends to its shareholders and/or to provide for an increase in regulatory capital either by contributions to the share capital, or by raising subordinated debt. In addition, the Bank is working constantly in order to minimize deviations from regulatory capital: it work on the recovery of overdue income and the prevention of positive liquidity gaps exceeding one year etc.

The capital adequacy standard according to the requirements of the National Bank of Ukraine

The National Bank of Ukraine requires the banks to maintain their capital adequacy rate of 10% of risk-weighted assets. The table below shows the Bank capital adequacy rate, calculated as at 31 December 2016 and 2015. During the reporting year and the previous year, the Bank met all capital standards set by the National Bank of Ukraine.

**Table 31.1. Regulatory capital structure**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Bank regulatory capital (RC) | 612,368 | 574,525 |
| 2 | Actually paid registered share capital | 500,000 | 500,000 |
| 3 | Contributions for nonregistered share capital | - | - |
| 4 | Disclosed reserves created or increased and charged to retained earnings: | | |
| 4.1 | General reserves and reserve funds created according to the law of Ukraine | 33,200 | 34,633 |
| 4.1.1 | Of which reserve funds | 33,200 | 34,633 |
| 5 | Reduction of non-current assets (the amount of understated reserves, intangible assets net of amortization, capital investments in intangible assets, losses in the current and | (2,694) | (4,802) |

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| | previous years) | | |
| | including: | | |
| 5.1 | Intangible assets net of amortization | (2,694) | (2,692) |
| 5.2 | Capital investments in intangible assets | - | (104) |
| 5.3 | Prior years' losses | - | (2,006) |
| **6** | **Property and equipment (FA) (Tier 1)** | **530,505** | **529,831** |
| 7 | Allowances for standard loans to clients, and standard debts on off-balance operations | 47,979 | 38,761 |
| 8 | Estimated profit for the current year | 33,884 | 5,933 |
| **9** | **Additional capital (Tier 2)** | **81,863** | **44,694** |
| **10** | **Total regulatory capital** | **612,368** | **574,525** |
| 11 | Risk weighted assets | 3,368,261 | 3,725,504 |
| 11 | Total open currency position on all foreign currencies | 4,860 | 15,524 |
| **12** | **Regulatory adequacy capital (at least 10% per standard)** | **18.15%** | **15.36%** |

## Note 32. Trust management accounts

| Line | Item | Reporting period | Previous period | Movement (+/-) |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1 | Current accounts of the fiduciary bank of trust management | 5,690 | 12,101 | (6,411) |
| 2 | Receivables on trust transactions | 114,291 | 96,668 | 17,623 |
| 3 | Other assets in trust management | 67,525 | 39,787 | 27,738 |
| **4** | **Total active trust management accounts** | **187,506** | **148,556** | **38,950** |
| 5 | Bank management funds | 187,506 | 144,359 | 43,147 |
| 6 | Trust transactions income | - | 4,197 | (4,197) |
| **7** | **Total passive trust management accounts** | **187,506** | **148,556** | **38,950** |

As of 31 December 2016, the Bank established four construction finance funds managed by Bank.

Trust management transactions are recorded by the manager of each bank management fund.

## Note 33. Contingent liabilities of the Bank

The Bank discloses information on events that occurred by the end of the reporting period but are not disclosed in other notes, where the probability of an outflow of resources embodying economic benefits will not meet the definition of liabilities, including:

*a) Litigations*

At the reporting date there are two court cases involving the Bank, where the Bank is a defendant, for the total amount of UAH 221 thousand.

In general, per the preliminary analysis of litigations, they are not likely to result in any risk to the financial position and stability of the Bank.

*b) Contingent tax liabilities*

The Bank's tax accounting policies aim to adhere to principles of prudence and diligence. Therefore, the Bank does not anticipate any risks of potential tax liabilities, and does not assess their financial impact or estimate uncertainty associated with possible future changes of these obligations at the end of the reporting period.

The regulator is authorized to determine the taxpayer's monetary liability in cases provided by the Tax Code of Ukraine within 1,095 days following the last day of the deadline for filing tax returns.

*c) Capital investment liabilities*

There are no capital investment liabilities as at 31.12.2016.

*d) Operating lease liabilities*

**Table 33.1. Future minimum lease payments on uncancellable operating lease contract**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | 1 year or less | 3,214 | 1,323 |
| 2 | 1-5 years | 2,509 | 7,282 |
| **3** | **Total** | **5,723** | **8,605** |

As of 31.12.2016, the Bank has 37 operating lease contracts, including 30 contracts of lease for 1 year or less and 7 contracts for 1-5 years.

*e) Credit related liabilities*

As of 31 December 2016, credit related liabilities (usually those are revocable lines of credit granted to clients) amounted to UAH 390,349 thousand. Their potential financial impact on the financial performance of the Bank is insignificant and do not carry serious risks (liquidity risk ), as 99% of them are revocable, i.e. free from risks.

**Table 33.2. Credit related liabilities**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Unused credit lines | 390,349 | 778,702 |
| 2 | Export letters of credit | 59,412 | - |
| 3 | Import letters of credit | 83,023 | 73,282 |
| 4 | Granted guarantees | 470,144 | 210,091 |
| 5 | Provision for credit related liabilities | (1,074) | (907) |
| **6** | **Total credit related liabilities net of provisions** | **1,001,854** | **1,061,168** |

**Table 33.3. Credit liabilities by currency**

| Line | Item | Reporting period | Previous period |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Hryvnia | 582,224 | 611,406 |
| 2 | US dollar | 369,762 | 442,918 |
| 3 | Euro | 49,868 | 6,844 |
| **4** | **Total** | **1,001,854** | **1,061,168** |

*f) Pledged assets and assets with restricted possession, use and disposal*

At the beginning of the reporting and previous periods the Bank does not have pledged assets and assets with restricted possession, use and disposal.

## Note 34. Derivatives

**Table 34.1. Fair value of derivatives in the trading portfolio of the Bank**

| Line | Item | Principal or agreed amount receivable at fair value | Principal or agreed amount payable at fair value | Positive fair value of assets | Negative fair value of liabilities |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | SWAP contracts (SPOT, forward) UAH placement USD receipt | 156,884 | 156,826 | - | 3,578 |
| 2 | Total on SWAP contracts | 156,884 | 156,826 | - | 3,578 |

## Note 35. Fair value of financial instruments

The Bank defines the fair value as the amount at which a financial instrument could be exchanged between knowledgeable and willing parties other than in a forced sale or liquidation, and is best proved by an active quoted market price of the financial instrument.

The Bank estimated fair values of financial instruments using available market information (if any) and appropriate valuation methodologies.

The fair value of assets maturing in less than one month approximates their book value as these financial instruments are of a term nature. For longer-term amounts due from other banks and to other banks, market interest rates are used and, accordingly, the fair value of these assets and liabilities approximates their book value.

The book value of securities available for sale is a reliable estimate of their fair value. Interest rates of interest-bearing securities are fair market rates and, accordingly, the fair value of these securities approximates the book value of these instruments.

The fair value of the credit portfolio is based on the loan servicing characteristics and interest rates of individual loans within each sector of the portfolio. Loan loss allowances estimates take into consideration the risk premium applied to different types of loans based on factors like the current situation in the sector where the borrower operates, the financial conditions of each borrower and guarantees obtained. Accordingly, the loan loss allowance is considered a reasonable estimate of potential losses that would be required to reflect the impact of credit risk.

In general, loans are granted at market rates and, therefore, the current balances represent a reasonable estimate of fair value. Accordingly, the book value calculated as amortized cost of such instruments is a reasonable approximation of their fair value.

For deposits with maturity of one month or less, the fair value approximates their book value due to a relatively short-term nature of these financial instruments. For longer-term deposits, interest rates are market rates and, accordingly, the fair value approximates their book value.

**Table 35.1 Fair value and inputs hierarchy levels used for the assets and liabilities evaluation techniques for the reporting period**

| Line | Item | Fair value under various evaluation techniques | | | Total fair value | Total carrying value |
|---|---|---|---|---|---|---|
| | | Market quotations (level 1) | Model using observable data (level 2) | Model using non-observable data (level 3) | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| I | ASSETS | | | | | |
| 1 | Cash and cash equivalents | | 396,620 | | 396,620 | 396,620 |
| 1.1 | Cash | | 41,390 | | 41,390 | 41,390 |
| 1.2 | Balances with the National Bank of Ukraine | | 104,232 | | 104,232 | 104,232 |
| 1.3 | Correspondent accounts, deposits and overnight loans with other banks | | 219,770 | | 219,770 | 219,770 |
| 1.4 | Deposit certificates issued by the NBU | | 83,064 | | 83,064 | 83,064 |
| 2 | Loans to customers | | - | 4,143,086 | 4,143,086 | 4,143,086 |
| 2.1 | corporate loans | | - | 4,120,023 | 4,120,023 | 4,120,023 |
| 2.2 | loans to sole traders | | | 18,918 | 18,918 | 18,918 |
| 2.3 | mortgage loans to individuals | | | 669 | 669 | 669 |
| 2.4 | consumer loans to individuals | | | 133 | 133 | 133 |
| 2.5 | Other loans to individuals | | | 3,343 | 3,343 | 3,343 |
| 3 | Other financial assets | | | 16,859 | 16,859 | 16,859 |
| 3.1 | Receivables on payment card transactions | | | 3,434 | 3,434 | 3,434 |
| 3.2 | Restricted cash | | | 11,628 | 11,628 | 11,628 |
| 3.3 | Other financial assets | | | 1,797 | | 1,797 |
| 4 | Property, equipment and intangible assets | | - | 22,511 | 22,511 | 22,511 |
| 4.1 | land plots | | | 232 | 232 | 232 |
| 4.2 | buildings, structures and transmission equipment | | | 19,585 | 19,585 | 19,585 |
| 4.3 | intangible assets | | | 2,694 | 2,694 | 2,694 |
| | | | | | | |
| II | LIABILITIES | | | | | |
| 5 | Due to banks | | 9 | | 9 | 9 |
| 5.1 | Correspondent accounts, deposits and overnight loans from other banks | | 9 | | 9 | 9 |
| 6 | Due to clients | | 3,529,618 | | 3,529,618 | 3,529,618 |
| 6.1 | government and public organizations | | 263 | | 263 | 263 |
| 6.2 | other legal entities | | 2,319,631 | | 2,319,631 | 2,319,631 |
| 6.3 | individuals | | 1,209,724 | | 1,209,724 | 1,209,724 |
| 7 | Debt securities in issue | | 118,028 | | 118,028 | 118,028 |
| 7.1 | Deposit certificates | | 118,028 | | 118,028 | 118,028 |
| 8 | Other borrowings | | 372,253 | | 372,253 | 372,253 |
| 8.1 | Loans received from international and other financial organisations | | 372,253 | | 372,253 | 372,253 |
| 9 | Other financial liabilities | | 9,662 | | 9,662 | 9,662 |

**Table 35.2 Fair value and inputs hierarchy levels used for the assets and liabilities evaluation techniques for the previous period**

| Line | Item | Fair value under various evaluation techniques | | | Total fair value | Total carrying value |
|---|---|---|---|---|---|---|
| | | Market quotations (level 1) | Model using observable data (level 2) | Model using non-observable data (level 3) | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| I | ASSETS | | | | | |
| 1 | Cash and cash equivalents | | 355,086 | | 355,086 | 355,086 |
| 1.1 | Cash | | 30,516 | | 30,516 | 30,516 |
| 1.2 | Balances with the National Bank of Ukraine | | 98,408 | | 98,408 | 98,408 |
| 1.3 | Correspondent accounts, deposits and overnight loans to other banks | | 181,338 | | 181,338 | 1,975 |
| 3 | Loans to customers | | | 5,055,856 | 5,055,856 | 5,055,856 |
| 2.1 | corporate loans | | | 5,019,113 | 5,019,113 | 5,019,113 |
| 2.2 | loans to sole traders | | | 20,618 | 20,618 | 20,618 |
| 2.3 | mortgage loans to individuals | | | 1,577 | 1,577 | 1,577 |
| 2.4 | consumer loans to individuals | | | 11,797 | 11,797 | 11,797 |
| 2.5 | Other loans to individuals | | | 2,751 | 2,751 | 2,751 |
| 3 | Other financial assets | | | 9,904 | 9,904 | 9,904 |
| 3.1 | Receivables on payment card transactions | | | 1,147 | 1,147 | 1,147 |
| 3.2 | Restricted cash | | | 8,730 | 8,730 | 8,730 |
| 3.3 | Other financial assets | | | 27 | 27 | 27 |
| 4 | Property, equipment and intangible assets | | | 23,901 | 23,901 | 23,901 |
| 4.1 | land plots | | | 232 | 232 | 232 |
| 4.2 | buildings, structures and transmission equipment | | | 20,872 | 20,872 | 20,872 |
| 4.3 | intangible assets | | | 2,797 | 2,797 | 2,797 |
| | | | | | | |
| II | LIABILITIES | | | | | |
| 5 | Due to clients | | 4,466,818 | | 4,466,818 | 4,466,818 |
| 5.1 | government and public organizations | | 424 | | 424 | 424 |
| 5.2 | other legal entities | | 2,940,704 | | 2,940,704 | 2,940,704 |
| 5.3 | individuals | | 1,525,690 | | 1,525,690 | 1,525,690 |
| 6 | Debt securities in issue | | 32,978 | | 32,978 | 32,978 |
| 6.1 | Deposit certificates | | 32,978 | | 32,978 | 32,978 |
| 7 | Other borrowings | | 386,590 | | 386,590 | 386,590 |
| 8 | Other financial liabilities | | 4,359 | | 4,359 | 4,359 |

The Bank has no financial instruments fair valued using level I inputs. There were no changes during the reporting and previous periods (considering income or expenses recognized through profit or loss, other comprehensive income; purchase, sale, issue or settlement, and transfer from or to level I inputs).

During the reporting and previous periods, the Bank does not have financial assets, fair value of which cannot be reliably estimated.

Bank does not have collateral, which could be sold or remortgaged.

## Note 36. Related party transactions

The approach to the identification of parties related to the Bank changed in the reporting year. For the purposes of these financial statements, parties are related if they are under joint control or when one party controls another party or can exercise significant influence over the other party's financial and operational decisions in accordance with IAS 24 *Related Party Transactions*. Each potential related party transaction is analysed for the substance of the relationship rather than its legal form. Therefore, outstanding loans to related parties disclosed in the *Related party transactions* Note are shown in accordance with this changed approach for both the reporting and the previous year.

In the course of its operations the Bank enters into transactions with its major shareholders, key management personnel, associates and other related parties. These transactions include settlements, crediting, documentary transactions, attraction of deposits and foreign currency transactions.

**Table 36.1. Balances of related party transactions as at the end of the reporting period**

| Line | Item | Major shareholders of the Bank | Key management personnel | Associates | Other related parties |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Loans to customers (contractual interest rate 0.1 –33 %) | 486 | 145 | 111 | 2,534,479 |
| 2 | Loan loss allowance at 31 December | 2 | 1 | - | 111,435 |
| 3 | Other assets | - | - | - | 261 |
| 4 | Due to clients (contractual interest rate 1 -23 %) | 31,491 | 2,699 | 4,333 | 307,847 |
| 5 | Debt securities in issue | 12,759 | 28 | 46 | - |
| 6 | Provisions for liabilities | 64 | 9 | 21 | 286 |
| 7 | Other liabilities | - | 1 | 3 | 30 |

**Table 37.2. Income and expenses on transactions with related parties for the reporting period**

| Line | Item | Major shareholders of the Bank | Key management personnel | Associates | Other related parties |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Interest income | 8 | 3 | 8 | 224,824 |
| 2 | Interest expenses | 2,096 | 121 | 273 | 30,138 |
| 3 | Dividends | 10,869 | - | - | - |
| 4 | Fee and commission income | 28 | 48 | 17 | 9,175 |
| 5 | Allocation to impairment allowance for loans and due from other banks | 2 | - | - | 14,489 |

**Table 36.3. Other rights and obligations on transactions with related parties at the end of the reporting period**

| Line | Item | Major shareholders of the Bank | Key management personnel | Associates | Other related parties |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Import letters of credit | - | - | - | - |
| 2 | Other liabilities | 1,468 | 357 | 371 | 95,004 |
| 3 | Guarantees | - | - | - | 107,092 |

**Table 36.4. Total loans granted to related parties and paid by the related parties during the reporting period**

| Line | Item | Major shareholders of the Bank | Key management personnel | Associates | Other related parties |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Loans to related parties during the period | 325 | 56 | 53 | 249,590 |
| 2 | Loans repaid by related parties during the period | - | - | - | - |

**Table 36.5. Balances of related party transactions as at the end of the previous period**

| Line | Item | Major shareholders of the Bank | Key management personnel | Associates | Other related parties |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Loans to customers (contractual interest rate 0.1 –33 %) | 161 | 89 | 58 | 2,284,889 |
| 2 | Loan loss allowance at 31 December | 51 | 3 | 12 | 96,947 |
| 3 | Due to clients (contractual interest rate1 -23 %) | 24,407 | 1,166 | 3,325 | 274,203 |
| 4 | Debt securities in issue | 4,572 | - | 1,267 | 1,987 |
| 5 | Provisions for liabilities | - | - | - | - |
| 6 | Other liabilities | - | 1 | 1 | 270 |

**Table 36.6. Income and expenses on transactions with related parties for the previous period**

| Line | Item | Major shareholders of the Bank | Key management personnel | Associates | Other related parties |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Interest income | 1 | 3 | 6 | 164,535 |
| 2 | Interest expenses | 9 | 15 | 11 | 29,099 |
| 3 | Dividends | 2,333 | - | - | - |
| 4 | Fee and commission income | 2 | 4 | 3 | 26,016 |
| 5 | Allocation to impairment allowance for loans and due from other banks | - | - | - | 88,214 |

**Table 36.7. Other rights and obligations on transactions with related parties at the end of the previous period**

| Line | Item | Major shareholders of the Bank | Key management personnel | Associates | Other related parties |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Import letters of credit | - | - | - | - |
| 2 | Other liabilities | 1,748 | 453 | 368 | 314,012 |
| 3 | Guarantees issued | - | - | - | 51,967 |

**Table 36.8. Total loans granted to related parties and paid by the related parties during the previous period**

| Line | Item | Major shareholders of the Bank | Key management personnel | Associates | Other related parties |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Loans to related parties during the period | 82 | - | 58 | 878,632 |
| 2 | Loans repaid by related parties during the period | - | 109 | - | - |

**Table 36.9. Compensation of key management personnel**

| Line | Item | Reporting period | | Previous period | |
|---|---|---|---|---|---|
| | | Expenses | Accruals | Expenses | Accruals |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Current employee benefits | 8,627 | 323 | 7,485 | 431 |
| 2 | Severance payments | 226 | - | 26 | - |

## Note 37. Subsequent events

There were no post-year end events the disclosure of which would affect the decisions taken by the users of information.