PUBLIC JOINT STOCK COMPANY
"BANK ALLIANCE"

Financial Statements according to International Financial Reporting Standards and Independent Auditor's Report

December 31, 2017

CONTENTS

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TRANSLATED FROM UKRAINIAN ORIGINAL

INDEPENDENT AUDITOR'S REPORT

To Shareholders and Board of "BANK ALLIANCE" Public Joint-Stock Company

To the National Bank of Ukraine

Report on the Audit of the Financial Statements

Opinion

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

- Statement of financial position (balance sheet) as at December 31, 2017;
- Statement of profit and loss and other comprehensive income (income statement), statement of changes in equity (statement of owner's equity), and statement of cash flows under the direct method for 2017; and
- a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and of 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 applicable in Ukraine and are relevant to our audit of the financial statements, 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 as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have concluded that the matters listed below are key audit matters to be reflected in our report.

Key Audit Matter	How our audit addressed the key audit mat
Provisions for losses on impairment of loans and customer debt – UAH 20 797 thousand *See Notes 8, 4.4 and 4.43*	
We focused on this area as a key audit matter due to the materiality of balances in Loans and Customer Debt and the subjective nature of judgments used in calculating the impairment. Provisions for impairment losses reflect management's estimate of loan portfolio losses and customer debt as at the reporting date. They are calculated on collective basis for loans with similar characteristics and on individual basis for material loans. The calculation of provisions on collective and individual basis requires using judgments. Provisions on collective basis are calculated using statistical models. Inputs for these models are based on the past loss experience and statistical information and are subject to management's judgment to make asset impairment assumptions and calculate provisions. In order to calculate individual provisions, it is necessary to determine when a loss event occurred and then estimate the expected future cash flows related to that loan.	Our procedures included, inter alia: ▪ Testing internal control as implemented by management, to the extent of calculating provisions for losses on impairment of loans and customer debt both on individual and collective basis. ▪ In relation to provisions on collective basis, the appropriateness of the modelling policy and methodology used for material loan portfolios was independently assessed to determine compliance with accounting standards and market practices, and model calculations were verified by recalculation. ▪ We have conducted also an independent assessment of the appropriateness of management's judgments with respect to the calculation and segmentation methodology used, periods of statistic data for calculation of probability of default, as well as quittance indexes and value of collateral. ▪ For individual provisions, the appropriateness of the provisioning methodology was independently assessed for a risk-based sample of loans throughout the portfolio. An independent assessment of the level of provisions made was conducted based on loan and counterparty details from the loan file. Discounted cash flow calculations were listed for a sample of counterparties.

Other Information

Management is responsible for the other information. The other information comprises the Issuer's Annual Information for 2017 but does not include the financial statements and our auditor's report thereon. The Issuer's Annual Information for 2017 is expected to be provided to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information referred to above when it is provided to us and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with the 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, the Management Board is responsible for assessing the Bank's ability to continue as going concern, disclosing, as applicable, matters relating 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 is responsible for overseeing the Bank's financial reporting process.

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 concluded 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Bank'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 so that the financial statements give a true and fair view.

We communicate with the Supervisory Board regarding 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 to 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.

Report on Other Laws and Regulations

In accordance with the Law of Ukraine "On Banks and Banking" and the requirements of the National Bank of Ukraine (the NBU hereinafter), based on the results of conducted audit of the Bank's annual financial statements, the auditors shall express an opinion on the indicated statements and present an auditor's report.

An audit objective is to express an opinion on whether the Bank's annual financial statements for 2017 present fairly, in all material aspects the financial position of the Bank in accordance with International Financial Reporting Standards.

The information contained in this report is the result of our audit procedures within the scope of audit of the Bank's annual financial statements for 2017. This information has been derived from selective testing to the extent necessary for planning and conducting of audit procedures in accordance with International Standards on Auditing.

The report has been prepared solely for the information and use by the Bank's management and the NBU and may not be used by any other party. A limited scope of procedures shall be considered in reading this report regarding the assessment of issues related to the Bank's activities, organization of accounting and internal controls.

Furthermore, consideration shall be given to the fact that our criteria for assessing issues related to the Bank's activities, organization of accounting and internal controls may differ from those applied by the NBU.

As a result of our audit procedures within the scope of audit of the annual financial statements, we express our opinion on the Bank's compliance with the requirements set by the regulations of the National Bank of Ukraine regarding:

appropriateness (fair presentation) of distribution of assets and liabilities by maturity

As a result of our audit procedures within the scope of audit of the annual financial statements, we have identified that upon presentation of data the Bank has deviated from the requirements of the National Bank of Ukraine on appropriate (presented fairly) distribution of assets and liabilities by maturity in Statistical Form No. 631 "Assets and Liabilities Maturity Structure Statement", approved by the Board of the NBU as at 1 January of the year following the reporting one.

Viz., the following deviations were identified during selective audit of certain active transactions of the Bank:

According to the Bank's Form 631	According to selective audit data	Amount, UAH
from 2 days to 31 days	from 32 days to 365 (366) days	4 035 293
from 2 days to 31 days	from 366 days to 2 years	1 144 765
from 32 days to 365 (366) days	from 366 days to 2 years	862 743,26

The Bank's management provided the following explanation:

Subject to letter of the National Bank of Ukraine No. 31-0007/86026 dated 22 December 2017, a test period for reporting dates 1 January 2018, 11 January 2018 has been introduced for decade Form 631 due to introduction of amendments to Statistical Reporting Arrangement Rules. As at 1 January 2018 the Form 631 was created in a test mode, the developer has provided 18 updates, including 6 after deadline for submission of report to the NBU. Discrepancies of data in Form 631 as of 1 January 2018 occurred due to test period, however they did not exceed the materiality threshold and their correction did not affect the compliance to any of prudential standards. As of 11 January 2018 the Form 631 is still in a test mode, but discrepancies that occurred as of 1 January 2018 have been rectified.

adequacy of internal controls

As a result of our audit procedures within the scope of audit of the annual financial statements, we have identified no evidence that the structure and arrangements of the Bank's internal controls do not meet the statutory requirements of the NBU, in particular, the Resolution of the National Bank of Ukraine No. 867 "On Approval of the Regulations on the Organization of Internal Control in Banks of Ukraine" dated 29 December 2014.

internal audit procedures

We believe that as of the audit date the Bank's internal regulations governing the internal audit procedures comply with the statutory requirements of the NBU, including the Resolution of the National Bank of Ukraine No.311 "On Approval of the Regulations on the Organization of Internal Audit in Banks of Ukraine" dated 5 May 2016. Internal audit procedures are performed in compliance with the requirements of the Bank's internal policies and regulations.

definition of credit risk exposure on active banking operations

The amount of credit risk as at the reporting date is calculated by the Bank in accordance with the requirements of the National Bank's regulations, including the Regulation on the Assessment by Ukrainian Banks of Credit Risk for Active Banking Operations, as approved by Resolution No. 351 of the Board of the National Bank of Ukraine, dated June 30, 2016 ("NBU Resolution No. 351").

As a result of conducting audit procedures as part of the audit of the annual financial statements, we have not detected any material deviations with respect to the Bank's credit risk exposure calculation as at December 31, 2017.

related party recognition and transactions

As a result of our audit procedures within the scope of audit of the annual financial statements, we have identified no evidence of non-compliance of the Bank's risk management system in terms of related party transactions and related party identification and transaction procedures with the statutory requirements of the NBU. During our audit, we have identified no violations of the statutory requirements in transactions with related parties.

the Bank's capital adequacy determined taking into account asset quality and related party transactions

The Bank's share capital as at December 31, 2017, was adequate and amounted to UAH 200 000 thousand according to the Bank's data. As disclosed in Note 22 "Share capital and share premium", the following changes to the share capital have occurred during 2017:

- by resolution of the General Meeting of Shareholders (Minutes of the general meeting of Shareholders No. 1/2017 dated 24 February 2017) a share of profit amounting to UAH 32 444 725,00 has been forwarded to increase the share capital of "BANK ALLIANCE" PJSC by increase of share nominal value (from UAH 10,00 to UAH 12,50 each);
- by resolution of the extraordinary General Meeting of Shareholders of "BANK ALLIANCE" PJSC dated 8 June 2017 (minutes No. 2/2017) the Bank has placed 3 022 110 ordinary shares with total nominal value of UAH 37 776 375,00.

As at December 31, 2017, according to the Bank's data, the Bank's regulatory capital amounted to UAH 294 688 thousand as required by regulations of the NBU (see Note 33 "Capital Management").

adequacy of bank accounting

The Bank's accounting system generally meets the regulatory requirements of the NBU and the Bank's accounting policies.

Mr. Gagik Nersesyan is the partner of the audit task from which this Independent Auditor's Report results.

General Director — Alexander Pochkun

Auditor — Gagik Nersesyan

The Certificate of Bank Auditor No. 0171
issued by the Audit Chamber of Ukraine on 12/22/2011

Україна * м. Київ * «БЕЙКЕР ТІЛЛІ УКРАЇНА» * Товариство з обмеженою відповідальністю * Ідентифікаційний код 30373906
ДЛЯ ВИСНОВКІВ ТА ЗВІТІВ

15 March 2018

Kyiv, Ukraine

Registration No. 18-034

Statement of Financial Position (Balance Sheet)
PJSC "BANK ALLIANCE"
as of 31 December 2017

UAH, ths.	Note	**31.12.2017**	**31.12.2016**
ASSETS			
Cash and cash equivalents	6	167 755	58 242
Financial assets at fair value through profit or loss	7	1 085	711
Loans and advances to customers	8	430 858	184 332
Securities held-to maturity	10	150 103	62 044
Deferred tax assets		552	-
Property, plant and equipment and intangible assets	11	12 863	6 392
Other financial assets	12	11 065	199
Other assets	13	2 983	1 051
Total assets		**777 264**	**312 971**
LIABILITIES			
Due to banks	14	2	-
Due to customers	15	460 496	99 240
Financial liabilities at fair value through profit or loss	16	1 029	867
Debt securities issued by the Bank	17	177	10 952
Other borrowings	18	1 546	-
Current income tax liabilities		13 057	9 263
Provisions for liabilities	19	3 069	2 933
Other financial liabilities	20	5 513	1 133
Other liabilities	21	2 531	805
Total liabilities		**487 420**	**125 193**
EQUITY			
Share capital	22	200 000	129 779
Retained earnings (losses)		64 290	35 208
Reserves and other funds of the Bank		25 554	22 791
Total equity		**289 844**	**187 778**
Total liabilities and equity		**777 264**	**312 971**

Approved for issue and signed by

January 19, 2018 — Chairman of the Board — N.V. Onyschenko

Employee in charge
M.V. Deineko (044)224-66-73 — Chief Accountant — N.A. Bochkovska

Comprehensive Profit and Loss Statement
(Profit and Loss Statement)
PJSC "BANK ALLIANCE"
for 2017

UAH, ths.	Note	2017	2016
Interest income	24	60 713	27 418
Interest expenses	24	(11 381)	(3 790)
Net interest income/(Net interest expenses)	24	**49 332**	**23 628**
Net (increase) decrease in provisions for impairment of loans and advances to customers, due from banks		(18 186)	6 850
Net interest income/(Net interest expenses) after formation of provisions for impairment of loans and advances to customers, due from banks		**31 146**	**30 478**
Fee and commission income	25	36 980	3 971
Fee and commission expenses	25	(6 892)	(531)
Gain/loss on transactions with financial instruments at fair value through profit or loss	28	4 086	(2)
Net gain/(loss) from foreign currency transactions		84 836	55 311
Net gain/(loss) from foreign currency revaluation		567	3 040
Net (increase) decrease in provisions for impairment of receivables and other financial assets		(295)	(84)
Net (increase) decrease in provisions for impairment of securities at fair value through other comprehensive income		(1 866)	(1 901)
Net (increase) decrease in liability reserves		(137)	(2 933)
Other income	26	1 390	1 774
Administrative and other operating expenses	27	(71 245)	(26 838)
Profit/(loss) before tax		**78 570**	**62 285**
Income tax expenses	29	(14 280)	(12 249)
Profit/(loss) from continuous activity		64 290	50 036
Profit/(loss)		**64 290**	**50 036**
OTHER COMPREHENSIVE INCOME:			
ITEMS TO BE RECLASSIFIED IN PROFIT OR LOSS			
Total comprehensive income		**64 290**	**50 036**
Profit (loss) attributable to owners of the Bank		64 290	50 036
Total comprehensive income attributable to owners of the Bank		**64 290**	**50 036**
Earnings/(loss) per share from continuous activity (UAH):	30	4,43	4,92
Earnings/(loss) per share from continuous activity (UAH) Earnings/(loss) per share attributable to owners of the Bank (UAH):	30	4,43	4,92

Approved for issue and signed by

January 19, 2018 — Chairman of the Board — N.V. Onyschenko

Employee in charge
M.V. Deineko (044)224-66-73 — Chief Accountant — N.A. Bochkovska

м. Київ * Україна * Публічне акціонерне товариство "Банк Альянс" Ідентифікаційний код 14360506

Statement of Changes in Equity
(Statement of Equity)
PJSC "BANK ALLIANCE"
for 2017

UAH, ths.	*Attributable to owners of the Bank*					Total equity
	share capital	Unregistered share capital	reserves and other funds	retained earnings	total	
Balance as of the beginning of reporting period 01.01.2016	**64 779**	-	**22 791**	**(14 828)**	**72 742**	**72 742**
Share issue (nominal value)	65 000	-	-	-	65 000	65 000
Total comprehensive income:	-	-	-	50 036	50 036	50 036
profit/(loss)	-	-	-	50 036	50 036	50 036
Balance as of 01.01.2017	**129 779**	-	**22 791**	**35 208**	**187 778**	**187 778**
Unregistered share capital	32 445	(32 445)	-	-	-	-
Share issue (nominal value)	37 776	-	-	-	37 776	37 776
Total comprehensive income:	-	32 445	2 763	29 082	64 290	64 290
profit/(loss)	-	32 445	2 763	29 082	64 290	64 290
Balance as of the end of reporting period 31.12.2017	**200 000**	-	**25 554**	**64 290**	**289 844**	**289 844**

Approved for issue and signed by

January 19, 2018 — Chairman of the Board — N.V. Onyschenko

Employee in charge
M.V. Deineko
(044)224-66-73

Chief Accountant — N.A. Bochkovska

Statement of Cash Flow
PJSC "BANK ALLIANCE" for 2017
(direct method)

UAH, ths.	Note	**2017**	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received	24	54 887	26 079
Interest expenses paid	24	(9 766)	(4 149)
Fee and commission income received	25	36 538	4 082
Fee and commission expenses paid	25	(6 892)	(531)
Results of transactions with financial derivative instruments		4 086	-
Results of FX transactions		84 836	55 311
Other operating income received	26	1 390	1 774
Staff costs paid	27	(34 980)	(14 838)
Administrative and other operating expenses paid	27	(27 268)	(10 087)
Income tax paid		(11 038)	(2 661)
Net cash profit/(loss) from operating activities before changes in operating assets and liabilities		**91 793**	**54 980**
Changes in operating assets and liabilities			
Net (increase)/decrease in financial assets held at fair value with revaluation result recognized in financial results		(375)	154
Net (increase)/decrease in due from banks		(4 049)	9 400
Net (increase)/decrease in loans and advances to customers	8	(256 763)	(94 244)
Net (increase)/decrease in other financial assets	12	(10 474)	-
Net (increase)/decrease in other assets	13	(6 405)	(876)
Net (increase)/decrease in due to banks	14	2	-
Net increase/(decrease) in due to customers	15	359 572	86 374
Net increase/(decrease) in debt securities issued by the Bank		(10 708)	10 300
Net increase/(decrease) in other financial liabilities	20	4 542	(2)
Net increase/(decrease) in other liabilities	21	538	-
Net cash flows from/(used in) operating activities		**167 673**	**66 086**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities held at amortized cost value	10	(88 000)	(22 000)
Acquisition of property, plant and equipment	11	(8 895)	(2 521)
Acquisition of intangible assets	11	(1 154)	(2 474)
Net cash flows from/(used in) investing activities		**(98 049)**	**(26 995)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares (unregistered capital)		37 776	65 000
Receipt of subordinated debt		-	(55 000)

UAH, ths.	Note	**2017**	**2016**
Receipt of other borrowings		1 546	-
Net cash flows from/(used in) financing activities		**39 322**	**10 000**
Effect of NBU exchange rates fluctuations on cash and cash equivalents		567	5 689
Net increase/(decrease) in cash and cash equivalents		109 513	54 780
Cash and cash equivalents at the beginning of the year	6	**58 242**	**3 462**
Cash and cash equivalents at the end of the year	6	**167 755**	**58 242**

Approved for issue and signed by

January 19, 2018 — Chairman of the Board — N.V. Onyschenko

Employee in charge
M.V. Deineko
(044)224-66-73

Chief Accountant — N.A. Bochkovska

Україна * м. Київ * Публічне акціонерне товариство "Банк Альянс" Ідентифікаційний код 14360506

Note 1. Corporate Information

Corporate name:

in Ukrainian: full — ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК АЛЬЯНС», abbreviated — ПАТ «БАНК АЛЬЯНС»;

in English: full — PUBLIC JOINT STOCK COMPANY "BANK ALLIANCE", abbreviated — PJSC "BANK ALLIANCE".

Country of incorporation: Ukraine

Location: Ukraine, 04053, Kyiv, 50 Sichovykh Striltsiv Street.

Form of incorporation: Public Joint Stock Company.

PUBLIC JOINT STOCK COMPANY "BANK ALLIANCE" (hereinafter – "the Bank") is an independent financial institution and is not a subsidiary of any other company.

The Bank does not possess a status of a specialized bank and is a universal financial institution. The Bank has 9 banking outlets and is active within the territory of Kyiv city, as well as Zaporizhzhya, Dnipro, Lviv, Chernivtsi, Kharkiv and Odesa Regions.

The Bank has no branches.

On 03/10/1992, PJSC "BANK ALLIANCE" was registered by the National Bank of Ukraine under the registration No. 89. The Bank has a perpetual Banking License No. 97 dated 11/17/2011 issued by the National Bank of Ukraine for the right to provide banking services defined in paragraph three of Article 47 of the Law of Ukraine "On Banks and Banking Activities" and the General License issued by the National Bank of Ukraine to carry out exchange operations No. 97-3 dated 12/30/2016.

The Bank is entitled to exercise professional open-market operations - trading in securities (brokerage activity) on the basis of a license issued by the National Securities and Stock Market Commission dated 11/28/2014 series AE No. 294590 with no expiry date.

The strategic objective of the Bank is to meet the social needs in provision of banking and other financial services (except for insurance), other banking activities defined by the current legislation of Ukraine; attraction, storage, propulsion and redistribution of monetary flow, as well as profit earning based on the results of banking activities.

The mission of the Bank lies in lending to businesses and individuals and provision of a full range of high quality banking services to ensure Ukraine's economic recovery and sustainable growth in gross domestic product. As a part of this mission, the Bank has developed a risk management strategy through an accounting equation between levels of revenue and risk assumed by the Bank. This principle allows to preserve financial stability in terms of the negative impact of external and internal factors.

The target group of the Bank is formed by the corporate customers of small and medium-sized businesses. The Bank plans to direct its efforts at forming long-term partnerships with customers, promote their financial soundness and development of banking services.

The principal activities of the Bank are as follows: loan and deposit operations, cash management services, operations on purchase and sale of currency, securities trading, consultancy and information services, including as to transactions in the stock and currency markets. The Bank actively utilizes the instruments of the interbank market for the efficient placement (involvement) of temporarily free funds, as well as for the purposes of foreign exchange transactions.

The Bank is a member of the Deposit Insurance Fund (certificate No. 023 dated 10/18/2012, registration No. 025 dated 09/02/1999), the Independent Association of Banks of Ukraine, National Payment System "Ukrainian Payment Area (Prostir)".

The General Meeting of Shareholders is the supreme governing body of the Bank. The Supervisory Board is the Bank's governing body that protects the rights of depositors, other creditors and shareholders of the Bank and, within its competence as defined by the Charter and Ukrainian law, controls and regulates the activities of the Management Board. The Management Board is a standing collective executive body in charge for management of the Bank's daily operations within the scope of its competence defined by the current legislation of Ukraine, the Charter, the Regulation on the Management Board which is responsible for efficient operation of the Bank's business in conformity with the principles, policies and procedures established by the Charter, decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank. The Management Board addresses all the issues on the Bank's operations.

In 2017 the General Shareholders Meeting decided to apply a part of profits in the amount of UAH 32 445 thousand to increase the Bank's authorized capital by increasing a nominal value per share (from UAH 10,00 to UAH 12,50 each), while the extraordinary General Shareholders Meeting decided to increase the Bank's authorized capital (by means of additional contributions by private placement of the Bank's ordinary registered shares) for the amount of UAH 37 776 thousand and registered with the National Bank of Ukraine and the State Registrar the Bank's charter as amended and restated in view of increasing its authorized capital up to UAH 200 000 thousand.

As at the end of reporting year 2017, the registered and fully paid share capital of the Bank amounted to UAH 200 000 thousand and comprised of 16 000 000 ordinary registered shares with a nominal value of UAH 12.5 per share. The Bank's management has a participatory interest of 3.9949% of the share capital of the Bank. Mr. Alexander Sosis, a citizen of Ukraine, owns a majority participatory interest in the Bank representing 89.178494% of the share capital of the Bank.

RURIK National Rating Agency confirmed at the Rating Committee meeting held on 14 August 2017 that "BANK ALLIANCE" PJSC had such long-term credit rating as uaA, investment category with the stable outlook.

The financial statements of the Bank for 2017 were authorized for issue on 19 January 2018 by the decision of the Management Board of PJSC "BANK ALLIANCE" (Minutes No. 8).

Note 2. Description of Economic Environment where the Bank Operates

Within the last four years, political and economic situation in Ukraine remained quite difficult, which, according to the Bank's management, was caused by three main groups of factors: 1) challenging geopolitical and geo-economic global situation; 2) continuing armed conflict in eastern Ukraine and, as a consequence, deepening of crisis in Russian-Ukrainian relations; 3) complicated political and economic situation in the country.

Ukraine's economy is characterized by rather significant influence and interference of state authorities in regulating the main directions of the country's development that stems, first of all, from lack of distinct strategy for development of the country, its structural transformation, establishment of independent relations with partner countries, as well as from tight terms and conditions of cooperation offered by international organizations and intergovernmental institutions. The state regulation of entrepreneurial activities, significant dependence of private sector on the state budget spending component and state-owned enterprises, control over distribution of funds from international organizations, control over the cash inflow from foreign investors, low efficiency of tax administration, low levels of judicial proceedings significantly affect the decisions of potential investors in the development of Ukraine's economy, which in turn does not allow development predictions and management decisions for over 1 year.

A complicated political and economic situation coupled with the bureaucratization of a high level prevents the government from initiating and commencing significant infrastructure projects, which may attract both private (including foreign) capital and state investments. More so as there are more than sufficient objects and factors (resources) to implement such projects in Ukraine.

In such context, the key mission of the banking market players is to hold on to the previously gained positions, suffer no reduction in the economic capital, reorganize the technology used to carry out banking transactions, reduce non-operating assets and expenses not related to the conduct of the principal activities, and develop new segments for the provision of services.

The Bank is new currently developing the documentary transaction segment. In 2017, a volume of issued guarantees increased four times. The key principals under such guarantees are Prozoro tender system participants and successful bidders, while the beneficiaries under the issued guarantees are government bodies and state-owned enterprises, international associations and unions. The documentary transactions have a non-exhaustive potential; however, the competition is seen to intensify in this segment.

Note 3. Basis of Preparation

The Bank's financial statements for 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The annual report for 2017 has been presented in accordance with the requirements of the "Regulation on Accounting and Financial Reporting in Ukrainian Banks", approved by the National Bank of Ukraine No. 373 dated 10/24/2011, and considering the "Methodological Guidelines on the Rules Governing the Compilation of Notes to Financial Statements of Ukrainian Banks" approved by the National Bank of Ukraine No. 965 dated 12/29/2015.

The Bank's management have prepared these financial statements on a going concern basis. The Bank's assets and liabilities are assessed on the assumption of the Bank's ability to continue as a going concern - at least for 12 months from the reporting date, but is not limited to this period. During 2017, the Bank demonstrated income-generating performance, had sources of funding (mainly funds received as contributions of shareholders to the share capital and current income of the Bank), therefore the going concern assumption as an accounting basis appears to be absolutely appropriate.

Taking into account the requirements of the National Bank of Ukraine regarding the gradual enhancement of banks' share capitals, the Bank approved the capital increase plan for 2018-2019, which provided for an enhancement of the Bank's share capital at the expense of a share of profits for 2017.

According to the estimates of the Bank's management, a consistent Shareholder's financial support and execution of the approved capital increase plan will ensure a reasonable assurance regarding the Bank's ability to continue as a going concern.

The reporting period for the Bank is a calendar year.

The Bank's functional currency, in which the accounting records are maintained and financial statements are prepared, is Ukrainian hryvnia.

The unit of measurement in which the financial statements are presented is a thousand of hryvnias (UAH, ths.).

Note 4. Summary of Significant Accounting Policies

The Bank's accounting policies are based on the accounting rules in line with the requirements of laws and regulations of the National Bank of Ukraine, which take into account the requirements and principles of International Financial Reporting Standards (IFRS).

The summary of significant accounting policies used in the preparation of these financial statements is set out below.

Note 4.1 Consolidated financial statements

The Bank is a member of a banking group and prepares consolidated financial statements of the banking group, it does not have any subsidiary or associated company.

Note 4.2 Basis of financial statements preparation estimation

Financial assets and/or financial liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of financial instruments. All regular way (ordinary) acquisitions of financial assets are recognized by the Bank on a settlement date. Assets and liabilities of the Bank are assessed and disclosed in the accounting records with sufficient care in order to avoid possibilities of transfers of existing financial risks to next reporting periods. An asset is recognized when an inflow of future economic benefits is probable and the asset has a cost or value that can be reliably measured. A liability is a present obligation of the Bank arising from past events, the repayment of which entails the outflow of the Bank's resources.

Note 4.3 Initial recognition of financial instruments

During the initial recognition of a financial asset or financial liability the Bank assesses them at their fair value plus (in case of a financial asset or financial liability not measured at fair value through profit or loss) transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability.

The best evidence of fair value at initial recognition is a transaction price. The gain or loss at initial recognition is taken into account only to the extent that there is a difference between a transaction price and fair value, which may be confirmed by the existing current market transactions with the same instruments.

Financial assets or financial liabilities arising at rates that differ from market ones are revalued at their origination to fair value, which represents future interest payments and principal repayments discounted at market interest rates for similar instruments. The difference between the market value and the nominal value at origination is recognized in the statement of comprehensive income as gains or losses from origination of financial instruments at rates different from market ones.

The Bank's accounting policies stipulate that after the initial recognition financial assets are measured as follows:

- investments held-to-maturity - at amortized cost using an effective interest rate method;
- loans and receivables - at amortized cost using an effective interest rate method;
- investments in equity instruments that do not have quoted market prices in an active market and fair value of which cannot be measured reliably - at cost;
- derivatives - at fair value;
- all other financial assets - at fair value.

After initial recognition, financial liabilities are measured at amortized cost using an effective interest rate method, except for derivative financial instruments that are measured at fair value through profit or loss.

Note 4.4 Impairment of financial assets

Assets that are reviewed by the Bank for impairment include: investments (other than those at fair value through profit or loss), loans and accounts receivable.

A financial asset (or a group of financial assets) is deemed to be impaired if there is objective evidence of impairment as a result of one or more "loss events" that have occurred after the initial recognition of the financial asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Where the Bank has no objective evidence of impairment for an individually assessed financial asset (whether significant), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Loans granted are assessed on an individual and portfolio basis. In order to determine the basis of loan assessment, the Bank's loan portfolio is divided into substantive and non-substantive loans. Substantive loans for which there is objective evidence of impairment are assessed individually. All non-substantive loans and substantive loans for which there is no objective evidence of impairment are assessed on a portfolio basis.

An objective evidence of impairment taken into account by the Bank may be as follows:

- significant financial difficulties of a borrower;
- breach of a contract by a borrower (default or delinquency in interest or principal payments);
- debt restructuring (for reasons related to financial difficulties of a debtor), that would not otherwise be considered by the Bank;
- high possibility of bankruptcy or financial reorganization of a borrower;
- extinction of an active market for a financial asset.

Losses expected as a result of future events (regardless of their probability) are not recognized in the calculation of the allowance for impairment.

Impairment losses are recognized as expenses of the Bank.

Note 4.5 Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from an asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full to a third party without significant delays;
- the Bank has transferred substantially all the risks and rewards of the asset, or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Control is retained if a counterparty does not have the practical ability to sell the asset to an entirely unrelated third party without additional restrictions.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the initial carrying amount of the asset or the maximum amount of compensation that may be called for payment.

The Bank derecognizes a financial liability when it is discharged or cancelled or expires. When one existing financial liability is replaced by another to the same lender on substantially different terms, or when the terms of existing liabilities change, the initial liability is withdrawn from the account with subsequent recognition of a new financial instrument, and the difference between the respective balance sheet values is recognized in the statement of comprehensive income.

Note 4.6 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets that can be easily convertible to known amounts of cash at short notice and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are held for the purpose of settlement of current liabilities, rather than for investment or any other purposes.

The Bank's cash and cash equivalents comprise cash on hand, funds with the National Bank of Ukraine and funds on correspondent accounts in other banks. Cash and cash equivalents are recognized at cost.

Note 4.7 Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss, in particular, include:

• ***securities held-for-trading*** are debt securities and shares acquired for profit generating purposes as a result of short-term fluctuations in prices or dealer's margins. Such securities are initially recognized at a quoted price of a buyer (bid price). Subsequently, they are measured according to published quotations of securities listed on stock exchanges, as of the close of the last stock exchange day of the month. In the absence of such quotations, the Bank determines fair value of the security listed in the stock register according to the latest exchange rate, determined by the results of the exchange trading during the last five working days of the reporting period. For debt securities the Bank recognizes interest income according to the contractual interest coupon rate, starting from the date of purchase until the maturity or sale. The Bank charges interest income on securities in the trading portfolio at the date of revaluation, but at least once a month. Revaluation result is disclosed in the trading portfolio in profit or loss under "Revaluation gain/loss on financial instruments at fair value through profit or loss" in the Statement of comprehensive income.

• ***assets (amounts of positive revaluation) under forward contracts held-for-trading.*** Derivative financial instruments, such as over-the-counter instruments, are revalued monthly at the reporting date. Revaluation of derivative financial instruments (taking into account changes in forward exchange rates or forward rates, interest rates, etc.) to their fair value is recognized in the balance sheet as an asset or liability in a forward contract, depending on the result of such revaluation: in case of a positive revaluation result an asset is recognized; in case of a negative revaluation result a liability is recognized.

Note 4.8 Mandatory reserves with the National Bank of Ukraine

As at the end of 2016 and 2017 reporting year, the Bank had no obligation to transfer mandatory reserve funds to separate accounts opened with the National Bank of Ukraine. The estimated amount of mandatory reserves must have been preserved on a correspondent account with the National Bank of Ukraine.

Note 4.9 Due from banks

Due from banks comprise short-term loans in the interbank market of Ukraine, according to which the Bank recognizes impairment. Initial recognition and subsequent measurement of such loans shall be subject to the same accounting principles as for loans to customers.

Note 4.10 Loans and advances to customers

The Bank conducts lending transactions in accordance with the applicable legislation, normative legal documents of the National Bank of Ukraine, the Bank's credit policy and other internal regulations.

Loans issued by the Bank are initially measured and recognised at fair value plus transaction costs and other charges related to the initiation of loans. The fair value of the loan on initial recognition is the transaction price. If the interest rate of the resulting loan is lower/higher than the market one, the amount of the difference between the fair value of financial assets and the value of the contract (amount of actually allocated funds) is recognized on initial recognition of the loan as a loss/ profit ("first day profit/loss") in correspondence with the accounts of discount (premium). Subsequently, the carrying amount of the loan is adjusted for amortization of losses/income from the asset and corresponding income is recorded as interest income/expenses in the Statement of comprehensive income using the effective interest rate method. Market rates are determined according to the rates approved by the Assets and Liability Committee (ALCO) in terms of currencies, segments (corporate, retail), types of credit product.

Given that the market for credit instruments is not active, the loans are subsequently measured at amortized cost using the effective interest rate during the amortization of discount (premium) and accrual of interest. The effective interest rate method is not applied to loans granted in the form of overdraft and revolving credit lines.

Restructuring represents a change in essential terms of the original contract by way of entering into an additional agreement with the borrower in view of the financial difficulties of the borrower and the necessity to create favourable conditions for the fulfilment of obligations under the asset:

- reduction of the interest rate;
- cancellation (full or partial) of the accrued and unpaid financial sanctions (fines and penalties) for late payments;
- changes in debt repayment schedule (maturities and amounts of principal repayment, payment of interest/fees);
- alteration of volumes of fees and commissions;
- changes in currency of fulfilment of obligations on loans granted in foreign a currency into a local currency.

If there is objective evidence of impairment loss on loans and advances to customers, the carrying amount is reduced by the amount of such losses with the use of an allowance account. The amount of loss is recognized in profit or loss.

Interest income on loans granted is recognized on an accrual basis using the effective interest rate method. Fees and commissions, being a part of a financial instrument (loan initiation fees, fees received under a loan commitment, etc.), fees and other transaction costs paid/received by the Bank are amortized using the effective interest rate on the Bank's interest revenues. Revenues and expenses that do not constitute a part of a financial instrument comprise fees obtained in the course of providing services, fees obtained after performing certain actions and fees according to which the amount cannot be reliably measured during initial recognition of a loan. Such revenues (expenses) are recognized as operating (fee and commission) income (expenses) upon the receipt of a service or achievement of a result stipulated under the contract. Financial expenses, internal administrative costs, and costs of preservation/ownership of financial instruments are not included in the transaction costs directly attributable to the creation or acquisition of a financial instrument.

Note 4.11 Financial assets available-for-sale

The financial assets available-for-sale comprise the following categories of securities:

- debt securities with fixed maturity that the Bank does not intend to and/or unable to keep to the date of maturity or in case of certain restrictions regarding the accounting of securities held-to-maturity;
- securities that the Bank is willing to sell due to changes in market interest rates, the Bank's needs associated with liquidity, and the availability of alternative investments;

- shares and other securities with variable income, according to which the fair value cannot be reliably measured;
- financial investments in associates and subsidiaries acquired and/or held exclusively for sale within 12 months;
- other securities purchased for the purpose of retaining them in the portfolio for sale.

Acquired financial assets available-for-sale are initially measured and recognized at fair value plus the cost of acquisition of such securities. The fair value at initial recognition is the transaction price.

Subsequent measurement. Financial assets available-for-sale are carried at fair value or at cost, taking into account impairment (shares and other securities with variable income, fair value of which cannot be reliably measured).

Financial assets available-for-sale at fair value are to be revalued with the revaluation result recognized in the Bank's capital.

The risk of security is confirmed by loss events that influence the estimated future cash flows of a security (objective evidence of impairment of securities). Where there is no security risk, the provision for such security is not formed. In the case of the risk of security listed on the stock exchange, a provision is formed in the amount of reduced assessment, which is calculated as the difference between the fair value and the carrying amount of the security. In the case of the risk of security not listed on the stock exchange and for which the Bank cannot determine the fair value for the above method, a provision is formed in excess of the carrying amount of securities over the amount recoverable in the current market yield and risk of securities.

A discount or a premium are separately accounted for debt securities, if any. A discount or a premium on debt securities held for sale are amortized over the period from the date of acquisition to the date of sale using the effective interest rate. Amortization of a discount increases interest income and amortization of a premium decreases interest income on securities.

For debt securities held for sale the Bank recognizes interest income, including interest income in form of amortization of discount (premium), using the effective interest rate. The Bank receives income in the form of dividends from the possession of securities with uncertain revenues. Accumulated interest is separately recognized for coupon securities. Interest is accrued dependent on the conditions of the securities issue, but at least once a month during the period from the date of purchase of the security until its sale. Total amortization of discount or premium is charged simultaneously with interest.

Note 4.12 Reverse purchase/repurchase contracts

During the reporting and previous years, the Bank did not enter into reverse purchase/repurchase contracts.

Note 4.13 Financial assets held-to-maturity

As at the end of 2017 and 2016, the Bank accounted for deposit certificates issued by the National Bank of Ukraine with a maturity of 30 days in the portfolio of financial assets held-to-maturity. The Bank accrued interest income for the above securities. No evidence of impairment found.

Note 4.14 Investments in associates and subsidiaries

During the reporting and previous years, the Bank had no investments in associates and subsidiaries.

Note 4.15 Investment property

During the reporting and previous years, the Bank did not maintain any investment property.

Note 4.16 Goodwill

During the reporting and previous years, the Bank did not recognize and account for goodwill.

Note 4.17 Property and equipment

According to IAS 16, ***property, plant and equipment*** are tangible items that:

a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

b) are expected to be used during more than one period.

In determining assets related to property, plant and equipment the Bank is guided by IAS 16 Property, Plant and Equipment, Instruction on accounting of fixed assets and intangible assets of banks of Ukraine, approved by Resolution of the Board of the National Bank of Ukraine No. 480 dated 12/20/2005 (as amended) and internal normative documents of the Bank. The unit of measurement of property and equipment is a separate inventory asset. The Bank sets a value characteristic for assets that are expected to be used during more than one period and are worth over UAH 2 500 or more, taking into account useful lives.

Purchased or constructed items are recognised at cost (acquisition cost plus all costs related to delivery, installation, and commissioning). Subsequent to initial recognition, property and equipment is measured at cost less accumulated depreciation and impairment losses.

At the end of each reporting period (year), the Bank assesses property and equipment for the signs of impairment in accordance with IAS 36 Impairment of Assets. If there is evidence of impairment, the asset's recoverable amount is calculated as the higher of fair value of an asset less costs to sell and value to be received subsequent to its use. The carrying amount is reduced to the recoverable amount if and only if the recoverable amount of an asset is less than its carrying value. The carrying amount is reduced to the recoverable amount of the asset and impairment loss is recognized in profit/loss.

At the end of 2017 and 2016, there were no signs of impairment of property and equipment, depreciation was not calculated.

At the end of each reporting year, during the annual inventory, useful lives of property and equipment are reviewed and adjusted, as appropriate. During the reporting year, the useful lives of property and equipment remained unchanged.

The liquidation of property and equipment and other non-current assets is held in the event of unserviceability, obsolescence and/or physical deterioration. Depreciation charged at 100% of non-current assets does not constitute grounds for writing-off.

Note 4.18 Intangible assets

According to IAS 38, an ***intangible asset*** is an identifiable non-monetary asset without physical substance. An asset is identifiable if it:

a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Accounting for intangible assets is maintained in accordance with IAS 38 Intangible Assets, Instruction on accounting of fixed assets and intangible assets of banks of Ukraine, approved by Resolution of the Board of the National Bank of Ukraine No. 480 dated 12/20/2005 (as amended) and internal normative documents of the Bank.

Purchased (produced) intangible assets are credited to the Bank at cost. The initial cost of an acquired intangible asset consists of the price (cost) of acquisition (excluding trade discounts), import duties, non-refundable indirect taxes and other expenses directly attributable to purchasing and preparing the assets for their intended use.

Subsequent to initial recognition, the intangible assets are carried at cost less accumulated amortisation and impairment losses.

The useful lives of the Bank's intangible assets are within the range from 5 to 25 years. The Bank has no intangible assets with indefinite useful lives.

At the end of each financial year, during the annual inventory, useful lives of intangible assets are reviewed and adjusted, as appropriate. During the reporting and previous years, useful lives of intangible assets remained unchanged.

At the end of each reporting period (year), the Bank assesses intangible assets for the signs of impairment in accordance with IAS 36 Impairment of Assets.

At the end of 2017 and 2016, there were no signs of impairment of intangible assets, impairment was not calculated.

Note 4.19 Operating leases where the Bank acts as a lessee and/or a lessor

A lease is a contract outlining the terms under which one party agrees to rent property owned by another party for a specified period of time for a consideration.

A lease is classified as an operating lease when the lessor does not assume substantially all the risks and rewards of ownership. Leasing terms are determined by the leasing agreement concluded in accordance with the laws of Ukraine.

Lease payments made by the Bank as a lessee under operating lease contracts are recognized in administrative costs. Where under the operating lease contract facility improvements made by the lessee are permitted, such investments made by the lessee are recognized in non-current tangible assets and amortized over the term of the lease remaining after such investments being made. During the reporting year the Bank was the lessee under the movable property and administrative buildings lease agreements.

Note 4.20 Finance leases where the Bank acts as a lessee and/or a lessor

The financial easing (lease) is the lease which terms and conditions do not provide for passing all of the risks and benefits inherent to the title to an asset. The title may or may not eventually be transferred.

The lease payments to be made by the Bank as lessee under the financial leasing agreements shall be recognized as interest expenses for accounts payable under the financial leasing. If a financial leasing agreement allows the lessee to improve the leased property, investments so made shall be recognized as non-current tangible assets and are amortized within the effective period of the leasing (lease) remaining after such investments. During the reporting year, the Bank acted as lessee under the movable property lease agreements.

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

Non-current assets held for sale are recognized if their carrying amount (balance-sheet value) is repaid by the sales operations rather than by current usage.

Non-current assets held-for-sale and disposal group assets are assets that correspond in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations to any of the following criteria:

- expected to be sold or intended for sale or use in the normal operating cycle of the entity;
- held primarily for sale;
- expected to be sold within twelve months after the reporting period; or
- is cash or cash equivalent (as defined in IAS 7) unless its exchange or use to settle the obligation is not limited for at least twelve months after the reporting period.

Non-current assets held-for-sale are not subject to depreciation.

The carrying amount of an asset is measured in accordance with the applicable IFRS prior to the initial classification of an asset as held-for-sale. Non-current assets held-for-sale are initially recognized at lower of carrying amount or fair value less costs to sell.

During the reporting and previous years, the Bank did not recognize the impairment of non-current assets held-for-sale and reversal of impairment.

In order to increase sales of non-current assets, the Bank's management have designed a plan to sell assets and initiated a program to identify a buyer and implement the plan. In addition, assets are actively promoted for sale on the market at a reasonable price given their current fair value with the expectation that the sale will be completed within one year from the date of classification, and actions taken for the implementation of the plan suggest the impossibility of cancellation of the plan or introducing any important changes.

Sales period extends for more than one year if this is due to circumstances beyond the control of the Bank. Namely, where deviations in the expected real estate sales plan arose because of stagnation in the property market of Ukraine or the absence of real buyers.

During the reporting and previous year of 2016 there were no any non-current assets held-for-sale.

Note 4.22 Depreciation and amortization

Depreciation (amortization) represents a systematic allocation of cost of property, plant and equipment (intangible assets) depreciated (amortized) over their useful lives.

Property and equipment (intangible assets) are depreciated (amortized) within the period of their useful lives set by the Bank during their initial recognition and reviewed at each financial year-end during the annual inventory, and adjusted as necessary.

Depreciation of property and equipment is calculated using the straight-line method based on the historical cost, residual value and useful life, for which the annual amount of depreciation is determined by dividing the depreciable value by the useful life of an asset.

Useful lives of property and equipment are presented as follows:

Buildings, constructions	50 years
Vehicles	7 years
Furniture	5 years
Computer equipment	4 years
Machinery and equipment (except computer equipment)	4 years
Tools, fixtures and fittings	5 years
Other property and equipment	12 years
Leased premise's improvement	end of lease term

Depreciation of low-value non-current assets is accrued in the first month of an asset's use in the amount of 100% of its value. Useful lives of intangible assets range from 5 to 25 years.

Note 4.23 Discontinued operations

The Bank has no business lines that may be classified as discontinued operations.

Note 4.24 Derivatives

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

- its value changes in response to the change in a specified interest rate, financial instrument price, foreign exchange rate, or other variable;

- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

After initial recognition the Bank recognizes derivatives at fair value.

All derivatives held-for-trading with positive fair value are recognized as assets. All derivatives held-for-trading with negative fair value are recognized as liabilities. Derivative financial instruments may not be reclassified from financial instruments at fair value through profit or loss.

The Bank recognizes loans issued (deposits placed) and loans received (deposits attracted) on the interbank market by the same counterparty in various currencies in an equivalent amount and the same maturity as transactions with derivative financial instruments.

Certain derivatives embedded in other financial instruments are accounted for as separate derivatives when their risks and economic characteristics are not closely related to the risks and economic characteristics of an underlying transaction. The Bank does not use hedge accounting.

Note 4.25 Borrowings

Borrowings include due to customers, representing non-derivative financial obligations to corporate clients and individuals.

Financial liabilities for funds raised are initially recognized at fair value. The best evidence of fair value at initial recognition is the transaction price. Profit or loss is initially recognized only if there is a difference between the transaction price and fair value, which may be confirmed by the existing current market transactions with the same instruments. Borrowings from customers are subsequently measured at amortized cost.

Interest expenses on borrowings are recognized on an accrual basis using the effective interest rate method (except for borrowings on request).

Note 4.26 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, in particular, include assets (negative revaluation) on forward contracts held-for-trading. Revaluation of derivative financial instruments, represented by over-the-counter instruments, has been made monthly on the reporting date. Revaluation result of derivative financial instruments (including changes in forward exchange rates or forward rates, interest rates, etc.) to their fair value is recognized in the balance sheet as an asset or liability in a forward contract, depending on the result of this revaluation: an asset is recognized in case of a positive revaluation result; a liability is recognized in case of a negative revaluation result.

Note 4.27 Debt securities issued by the Bank

The debt securities issued by the Bank are initially recognized at fair value. The best evidence of fair value at initial recognition is the transaction price. Profit or loss is initially recognized only if there is a difference between the transaction price and fair value, which may be confirmed by the existing current market transactions with the same instruments.

Deposit certificates issued by the Bank are subsequently measured at amortized cost.

Interest expenses on deposit certificates issued by the Bank are recognized on an accrual basis using the effective interest rate method.

Note 4.28 Provisions for liabilities

A liability is an existing obligation that arises from past events and the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Provisions for granted liabilities secure their fulfilment in the future, which indicates the probable losses due to an outflow of resources associated with the fulfilment of such financial liabilities.

Provisions are conceptually more uncertain than most other items in the statement of financial position. The Bank's management may determine only a range of possible outcomes and may therefore make an approximate estimate of the obligation, which is sufficiently reliable for the recognition of provisions. The amount recognized as a provision is the best estimate of the expenses required to settle present obligations. The estimates of results and financial effect are determined by the judgment of the Bank's management and supplemented by experience of similar transactions and, in certain cases, by reports from independent experts. Provided that the impact of time value of money is material, the provision amount is the present value of the expenses expected to be required to settle the obligation. In the assessment of a provision, gains from the expected disposal of assets are not taken into account, even if the expected disposal is closely associated to the event giving rise to the provision. No provision is recognized for future operating losses.

At each reporting date the Bank assesses liabilities and, provided that the Bank is confident it will have to repay such liabilities, the Bank creates a provision in the amount needed to fulfil the liability (net of consideration received, taking into account accumulated depreciation). If the outflow of resources related to the fulfilment of liabilities is unlikely, the provision (if any) is dissolved.

Where the Bank fulfils liabilities, the expected recoverable amount from the debtor or a third party is recognized by the Bank as an asset only when it is definitely stated that such recoverable amount will be received.

Note 4.29 Subordinated debt

Subordinated debt is an ordinary not secured by the Bank debt capital instrument, which according to the contract cannot be redeemed earlier than in five years, and in the event of the Bank's bankruptcy or liquidation it is returned to the investor after satisfaction of all other creditors. The amount of a subordinated debt included in the equity is annually reduced by 20% of its initial amount during the five last years of the contract.

Subordinated debt is initially recognized at fair value. The best evidence of fair value at initial recognition is the transaction price. Profit or loss is initially recognized only if there is a difference between the transaction price and fair value, which may be confirmed by the existing current market transactions with the same instruments.

Customers' funds borrowed on a subordinated debt basis are subsequently measured at an amortized cost.

Interest expenses on customer funds raised under a subordinated debt are recognized on an accrual basis using the effective interest rate method.

Note 4.30 Income tax

Current income tax is determined by the tax laws of Ukraine. Income tax expenses in the financial statements comprise current tax and changes in deferred taxes.

Income tax expenses are recognized in net income, except for the amounts relating directly to other comprehensive income and losses.

Deferred tax is calculated using the liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are calculated according to the tax rates enacted in the period when an asset is utilized or a liability is settled, based on legal norms in force at the reporting date. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which deferred tax assets can be utilized.

During 2017 the income tax rate amounted to 18%.

Since in the reporting year there were no discontinued activities at PJSC "BANK ALLIANCE", the amount of income tax relating to the profit (loss) from such activities was not recognized.

Note 4.31 Share capital and share premium

Ordinary shares are reflected in capital structure. The Bank did not obtain any share premium. The Bank issued no options, warrants and other financial instruments that grant their holder a right to purchase ordinary shares.

Note 4.32 Preference shares

The Bank has not issued preference shares. The Bank has not entered into agreements on the issue of shares depending on certain conditions.

Note 4.33 Treasury shares

In the reporting and previous years, no treasury shares were purchased from the shareholders.

Note 4.34 Dividends

In the reporting and previous years, the Bank's dividends have not been accrued and distributed.

Note 4.35 Income and expense recognition

Income represents the increase in economic benefits during the reporting period in the form of inflows of funds, increasing assets or reducing liabilities, which enhances the equity and does not comprise contributions from the Bank's founders.

Expenses represent a decrease in economic benefits during the reporting period in the form of outflows of funds, utilization of assets in the form of disposal or depreciation of assets or origination of liabilities, which reduces the equity and does not constitute distribution among the Bank's founders.

The Bank applies the principle of accrual and matching in recognition of income and expenses in the Statement of Comprehensive Income, i.e. all income and expenses related to the accounting period are recognized in the same period regardless of when they were received and principle of comparison of income of the reporting period with expenses incurred to generate this income in order to determine the financial result of the reporting period. If the income from the provision of services cannot be estimated reliably, it is recognized and disclosed within recoverable expenses.

Interest income and expenses for financial instruments are accounted for with simultaneous amortization of a discount/premium using the effective interest rate. The amount of a discount/premium must be fully amortized at maturity/return of a financial instrument or before the next date of interest rate review, if it changes depending on fluctuations in market rates. If the amount of a discount/premium for a financial instrument with a floating rate is related to changes in the credit risk of a counterparty, it is amortized over the expected useful life of a financial instrument.

The Bank recognizes interest income from financial assets for which the impairment was identified to the carrying amount of an asset using the effective interest rate applied to discount the estimated expected cash flows when determining the impairment of financial assets.

The Bank calculates interest income and expenses for financial instruments for which it is impossible to determine the value of future cash flows and the timing of their occurrence using the nominal interest rate.

During the initial recognition of financial instruments, the Bank determines the gain or loss in the amount of the difference between the fair value of a financial asset or financial liability and contract value in correspondence with the accounts of discount (premium), if the effective interest rate on this instrument is higher or lower than the market one. The difference between the fair value of a financial asset or financial liability and contract value from transactions with shareholders is recognized in equity and is included in parts to retained earnings (losses) for the period of its detention or at the time of disposal of the instrument.

The Bank's fees and commissions for provided (received) services depending on evaluation purposes and accounting bases of associated financial instruments are divided into:

- fees and commissions that form an integral part of income (expenses) of a financial instrument. These fees and commissions are recognized as part of the historical cost of a financial instrument and affect the determination of discounts and premiums for this financial instrument;

- fees and commissions received (paid) during provision of services are recognized as income (expenses);

- fees and commissions received (paid) after performing certain actions are recognized as income (loss) after the completion of certain operations.

Note 4.36 Foreign currency revaluation

The Bank's functional and presentation currency is Ukrainian hryvnia.

Assets and liabilities denominated in foreign currencies are translated into hryvnia equivalent as follows:

- all monetary items denominated in foreign currencies are recognised at the official Ukrainian hryvnia exchange rate ruling on the reporting date;
- non-monetary items in foreign currencies that are measured at cost are recognised at the official Ukrainian hryvnia exchange rate ruling on the transaction date;
- non-monetary items in foreign currencies that are measured at fair value are stated at the official Ukrainian hryvnia exchange rate at the fair value measurement date.

Foreign exchange differences arising on monetary items are recognized in the Statement of Comprehensive Income (Net gain/(loss) from foreign currency revaluation) in the period when they arise.

If the gain or loss in a non-monetary item is recognized in other comprehensive income, any foreign currency component of that gain or loss is recognized directly in other comprehensive income. Conversely, if the gain or loss in a non-monetary item is recognized in profit or loss, any foreign currency component of that gain or loss is recognized in profit or loss.

Note 4.37 Mutual offset of financial assets and liabilities

Financial assets and financial liabilities are offset in the balance sheet when the Bank has a legally enforceable right to set off the amounts recognized in the balance sheet and intends to settle or sell an asset and implement a liability simultaneously.

In the reporting and previous years, the Bank did not provide mutual offset of assets and liabilities.

Note 4.38 Assets under trust

In the reporting and previous years, the Bank did not enter into trust agreements.

Note 4.39 Employee benefits and related charges

The Bank's employees receive a basic salary, extra wage and other incentives and compensation payments.

A basic payroll budget comprises the basic salary of the Bank's employees - remuneration for works performed according to the position salary stipulated in a staffing chart (fixed official salary).

An additional payroll budget comprises extra wages - remuneration for extra works performed, labour accomplishments:

- supplementary benefits and fringes in the amounts stipulated by the law for discharging of duties of a temporarily absent employee;
- for combining of professions (positions) - employees receive salaries for works actually performed (set upon mutual agreement of the parties on the basis of content and/or the amount of extra works);
- bonuses related to performance of professional/industrial tasks and functions paid in line with the established procedure according to the Bank's special bonus systems;
- payment for non-worked time – provision of basic and additional annual leaves;
- cash compensations for unutilized vacations, additional leaves by employees who have children in the amounts prescribed by law.

Other incentive and compensation allowances comprise payments in form of rewards for annual performance, compensation and other tangible benefits not provided by the applicable law or charged in excess of the specified norms. In addition, payments are made at the expense of the State Social Insurance Fund: allowance for temporary disability and maternity leave allowance.

Remuneration rates of the Bank's employees are determined under the staffing chart. The payment of fixed official salaries depends on employee monthly performance of working time norm. The actual salary amount is determined in proportion to working hours in the reporting period.

Salary deductions and transfers of retained taxes and contributions to the budget and related funds are made along with the payment of salaries.

Withholding of tax from individuals and military contributions is carried out under the Tax Code of Ukraine of No. 2755 dated 12/02/2010. Withholding of a single fee is carried out in accordance with the Law of Ukraine No. 2464-VI "About collection and accounting of the single fee on obligatory national social insurance" dated 07/08/2010.

All withholdings from salaries, in addition to those established by the applicable law, shall be made upon an employee's written request.

The Bank has formed vacation allowances according to the laws of Ukraine and the Bank's accounting policies in compliance with IAS 19 "Employee Benefits" and para. 13, 14 of UAS 11. In addition, an allowance has been formed for the amount of single contribution charges for vacation payments.

Note 4.40 Business segment information

An operating segment is a component of the Bank's business engaged in business activities (from which it may earn revenues and incur expenses), operating results of which are regularly reviewed by the management for decision-making regarding resource allocation within the Bank and performance evaluation.

The principle of selection of the Bank's operating segments lies in the separation of information about the activities that are capable of bringing economic benefits and provide for related costs. Separation of operating segments is based on the management reporting system.

The Bank recognized the following operating segments:

- services to corporate customers - entities of all forms of property (other than banks);
- services to individuals;
- transactions with other banks;
- investment banking - securities transactions.

The Bank recognizes the income, which is directly related to the respective segment and the respective part of the Bank income, which can be related to the respective segment from external activity or from operations between other segments within the Bank as the income of reporting segment. The expenses related to the main activity of the segment that directly related to the respective segment and the respective part of the expenses, which can be reasonably related to the respective segment including expenses from external activity. The segment result is a segment income less segment expenses.

Note 4.41 Related party transactions

In accordance with the requirements of Article 52 of the Law of Ukraine "On Banks and Banking", the Bank's related parties are:

- the Bank's controllers;
- persons having a qualifying holding in the bank, and persons through which indirect ownership of a qualifying holding in the Bank is exercised by such persons;
- the Bank's managers, head of the internal audit service, chairmen, and committee members of the Bank;
- the Bank's congenerous parties and affiliates including banking group participants;
- persons having a qualifying holding in the Bank's congenerous parties and affiliates;
- managers of legal entities and banks' managers who are the Bank's congenerous parties and affiliates, head of the internal audit service, chairmen, and committee members of such persons;
- persons associated with individuals specified in paragraphs 1-6 of this definition;
- legal entities where the individuals mentioned in this part are managers or qualifying shareholders;
- any person through which a transaction is performed in the interests of persons referred to in this part, and which is influenced during any such transaction by persons referred to in this part, through labour, civil, and other relations.

When conducting transactions with related parties, the Bank may not provide for conditions that are not current market conditions. Transactions entered into by the Bank with related parties on terms that are not current market conditions are declare null and void from the date of signing.

Note 4.42 Changes in accounting policies and estimates, correction of significant errors and their presentation in the financial statements

The accounting policies are applied by the Bank to similar items of financial statements consistently. ***Changes in the accounting policies*** are possible in two cases:

- if required by the new standard;
- if the change would improve the reliability and/or expediency of information about the effects of transactions, other events and conditions on the financial position, financial performance or cash flows.

Changes in accounting policies are applied retrospectively. Exclusion (prospective application) is possible only if it is required by the transitional provisions of a new standard or interpretation. Retrospective application of accounting policies means the application to previous (comparative) periods of new principles, rules, standards of accounting and disclosures. The application of accounting policies for transactions, other events or conditions that differ in substance from those previously occurred, not occurred previously or were not material is not considered a change in accounting policies.

A change in accounting estimates is a value adjustment of an asset or liability as a result of revision of the expected future benefits or debts. Estimates are subject to review as a result of changing circumstances on which it was based, the receipt of new information. Changes in accounting estimates are introduced prospectively and do not affect the financial statements for prior periods. A change in accounting estimates is recognized by adjusting the carrying amount of an asset or liability with simultaneous disclosure of the result in the Statement of Comprehensive Income for the period.

The Bank corrects ***significant errors*** of a prior period by means of retrospective restatement. Exception to this rule applies where it is impossible to determine the effect of errors on a specific period or its cumulative impact (in this case the Bank restates the relevant item of assets, liabilities or equity at the beginning of the earliest period for which retrospective restatement is possible).

During 2017, there were no changes in accounting policies, accounting estimates and identifications of significant errors.

Note 4.43 Significant accounting estimates and assumptions that affect the recognition of assets and liabilities

During the preparation of the financial statements in accordance with the requirements of IFRS the Bank's Management adopts judgements, estimates and assumptions affecting the application of accounting policies, amounts of assets and liabilities, income and expenses recognized in the financial statements and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates. Estimates and assumptions on which they are based are reviewed regularly. The results of review of accounting estimates are recognized in the period in which they are reviewed and in any future periods affected by such estimates.

Professional judgments and estimates having the most significant impact on the financial statements include:

Impairment losses on other assets. The Bank transferred receivables for the acquisition of assets and the amount of prepaid services to "Other assets" in the Statement of Financial Position (Balance Sheet). The Bank measures impairment by assessing the probability of repayment, such as performance by counterparties of contractual terms of the supply of goods and services. To determine the amount of impairment, the Bank estimates debt maturities and analyses the number of days of accounting on the balance sheet. The actual repayment depends on the ability of contractors to deliver the goods and services and may differ from the management's estimates.

Fair value of financial instruments. In accordance with IAS 39, financial instruments must initially be recognized at fair value. In the absence of an active market for loan and deposit operations, in order to determine whether the operations were carried out at market or non-market interest rates, professional judgments are used. Price formation for the relevant types of transactions with unrelated parties represented the judgement basis.

Impairment of loans granted to borrowers. When determining the amount of loan impairment provisions, the key management personnel apply professional judgment on availability of signs that indicate a reduction in future cash flows on loans granted, given the working experience against the background of financial and economic crisis. The actual repayment on loans in the future may differ from the management's estimates.

Note 5. New and Revised Standards Issued but not yet Effective

The following standards have been adopted by the Bank since 1 January 2017:

IAS 7 – Disclosure Initiative. This novelty requires disclosing information relating to changes in liabilities related to financial activities;

IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses;

IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses. The novelty explains how to recognize deferred tax assets related to debt instruments measured at fair value.

Minor amendments have been made to IAS 12 within the framework of the project "Annual improvements to IFRS, 2012-2014".

The adoption of new and revised standards has had no effect on the Bank's financial sanding or performances and any disclosures in the Bank's financial statements.

The following standards and interpretations, as well as amendments to standards have been issued, but not yet become effective, as of the date of this financial statements approval:

IFRS 9 Financial Instruments shall become effective on 1 January 2018.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for 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. Except for hedge accounting, retrospective application is required, but comparative information is not compulsory. The requirements for hedge accounting are mainly applied prospectively, with some limited exceptions.

(a) Classification and Measurement

The Bank plans to continue to measure at fair value all financial assets currently accounted for at fair value.

Loans and advances to customers are preserved to receive contractual cash flows and they are expected to result in cash flows being solely principal and interest payments. Consequently, the Bank expects that they will continue to be accounted for at amortized cost under IFRS 9.

(b) Hedge Accounting

The Bank currently does not perform hedging transactions, accordingly a significant impact as a result of IFRS 9 adoption is not expected.

The Bank started using the new standard from its effective date. In 2017 the Bank carried out general impact assessment relating to all three parts of IFRS 9.

Through the comparative analysis of the findings from calculating evaluation provisions for expected credit loss under IFRS 9 and calculating the provision under IFRS 39, it was confirmed that there were insignificant changes in the existing provisions. This is so since the provision for financial assets is calculated with respect to significant lending transactions on a case by case basis, agreements have standard terms and conditions relating to the interest accrual and payment, repayment of the principal amount and require no re-classification of assets. Therefore, expected credit losses both under IFRS 39 and under IFRS 9 are evaluated based on discounted cash flows and are categorized according to the third calculation model.

IFRS 15 Revenue from Contracts with Customers shall become effective on 1 January 2018.

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized 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 new standard on revenue recognition replaces any current requirements to revenue recognition contained in other IFRSs. The standard requires either a full retrospective approach or a modified retrospective approach for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank plans to apply the full version of the retrospective approach of the new standard from the required effective date. In 2016-2017, the Bank conducted a preliminary assessment of the impact of IFRS 15, the results of which may be found within a more detailed continuing analysis.

IFRS 15 contains more detailed requirements for the presentation and disclosure of information compared to existing IFRS. Presentation requirements introduce significant changes to existing practices and significantly increase the amount of information required for disclosure in the financial statements. A number of disclosure requirements in IFRS 15 are brand new.

Amendments to IFRS 16 Leases shall become effective on 1 January 2019.

IFRS 16 was issued in January 2016 and substantially carried forward IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC Interpretation 15 *Operating Leases - Incentives* and SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases and requires that all lessees used a single lessee accounting model, similarly to the accounting procedure stipulated in IAS 17 for finance lease. The standard provides for two recognition exemptions – leases where the underlying asset has a low value (such as personal computers) and short-term leases (leases with a lease term of 12 months or less). At the inception of the lease the lessee shall recognize the liability for lease payments (leasing obligation) and asset representing the right to use the underlying asset during the lease term (i.e., assets in the form of right to use). Lessees will be required to recognize depreciation of lease assets separately from interest on lease liabilities in the income statement.

Lessees will also have to reassess lease obligations upon the occurrence of certain events (such as changes in lease terms, changes in future lease payments due to changes in indices or rates used to determine these payments). In most cases, the lessee will consider revaluation surplus of a lease obligation as the adjustment of an asset in the form of a right to use.

IFRS 16's approach to lessor accounting remained substantially unchanged from its predecessor, IAS 17. Lessors will continue to classify leases using the same principles of classification as in IAS 17, distinguishing two types of leases: operating and finance.

In addition, IFRS 16 requires lessors and lessees to disclose a larger volume of information than IAS 17 does.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted, but not before the date of adoption of IFRS 15. A lessee has the right to apply this standard using a retrospective approach or a modified retrospective approach. The transitional provisions provide for certain exemptions.

The Bank is currently assessing the possible impact of application of IFRS 16 on the financial statements.

IFRS 17 Insurance contracts shall become effective on 1 January 2018.

There have also been made amendments to current standards and interpretations. These amendments are as follows:

There have been made amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and its Associate/Joint Venture. The date when these amendments shall become effective was not yet defined.

The amendments address a conflict between the requirements of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures and clarify that that a full gain or loss should be recognized on the loss of control of a business, whether the business is housed in a subsidiary or not as defined in IFRS 3 Business Combinations. At the same time, the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business to an associate or joint venture should only be recognized to the extent of unrelated investors' interests in the associate or joint venture. These amendments are postponed indefinitely. These amendments are not expected to have any impact to the Bank's financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions shall become effective on 1 January 2018.

IASB has issued amendments to IFRS 2 Share-based Payment, which provide requirements on the accounting for three main aspects: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The entities are not required to restate the information for prior periods when adopting amendments, however retrospective adoption is allowed subject to the application of the amendments on all three aspects of compliance with other criteria. The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank is currently assessing the impact of application of these amendments and standards on future financial statements of the Bank.

Amendments to IFRS 4 – "Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" shall become effective on 1 January 2018;

Improvements to IFRS 1, IAS 28 shall become effective on 1 January 2018;

Amendments to IAS 40 Investment Property shall become effective on 1 January 2018;

Amendments to IAS 28 Investments in Associates and Joint Ventures shall become effective on 1 January 2018;

Amendments to IFRS 9 – Subscription with Negative Compensation shall become effective on 1 January 2018.

The program "Annual Improvements to IFRS, 2015-2017" shall become effective on 1 January 2019.

The following Clarifications and Interpretations have been adopted, but not yet become effective:

Interpretations to IFRIC 22 Foreign Currency Transactions and Advance Considerations shall become effective on 1 January 2018;

Clarifications IFRS 15 Revenue from Contracts with Customers shall become effective on 1 January 2018;

Interpretations to IFRIC 23 Uncertainty over Income Tax Treatments shall become effective on 1 January 2019.

The management is currently assessing the impact of adoption for application of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, and, according to the management's estimates, their adoption for application is not expected to have a material impact on future financial statements of the Bank.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

UAH, ths.	**31.12.2017**	**31.12.2016**
Cash on hand	47 177	3 721
Balances with the National Bank of Ukraine (excluding mandatory reserves)	11 883	4 551
Cash at correspondent accounts with banks	112 863	49 970
of Ukraine	112 863	49 970
Total cash and cash equivalents, net of provisions	**171 923**	**58 242**
Provision for impairment of cash at correspondent accounts with Ukrainian banks	(4 168)	-
Total cash and cash equivalents, excluding provisions	**167 755**	**58 242**

As at the end of 2017 and 2016, Cash and cash equivalents comprised cash on hand and funds in correspondent accounts with other banks (including the correspondent account with the National Bank of Ukraine) subject to low credit risk.

During 2017 and 2016, the Bank had no non-cash investment and financial transactions.

The data of Note 6 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Note 23.

Note 7. Financial assets held at fair value through profit or loss

Table 7.1. Financial assets held at fair value through profit or loss

UAH, ths.	**31.12.2017**	**31.12.2016**
Assets (amounts of positive revaluation) under forward contracts held-for-trading	1 085	711
Total financial assets at fair value through profit or loss	**1 085**	**711**

As at the end of 2017 and 2016, the Bank had no financial assets at fair value through profit or loss and transferred without derecognition.

The data of Note 7 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Note 8. Loans and Advances to Customers

Table 8.1. Loans and advances to customers

UAH, ths.	**31.12.2017**	**31.12.2016**
Loans to legal entities	448 261	190 742
Consumer loans to individuals	3 394	154
Provision for impairment of loans	(20 797)	(6 564)
Total loans, net of provisions	**430 858**	**184 332**

The data of Note 8 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Note 23.

Table 8. 2. Analysis of changes in provisions for loan debts for 2017

UAH, ths.	Loans to legal entities	Loans to individuals	Total
Balance as of 31 December 2016	(6 559)	(5)	**(6 564)**
(Increase)/decrease of impairment provision during the period	(13 549)	(580)	**(14 129)**
Effect of translation in statements currency	(104)	-	**(104)**
Balance as of 31 December 2017	**(20 212)**	**(585)**	**(20 797)**

Table 8.3. Analysis of changes in provisions for loan debts for 2016

UAH, ths.	Loans to legal entities	Loans to individuals	Total
Balance as of 31 December 2015	(11 263)	(59)	(11 322)
(Increase)/decrease of impairment provision during the period	5 068	54	5 122
Effect of translation in statements currency	(364)	-	(364)
Balance as of 31 December 2016	**(6 559)**	**(5)**	**(6 564)**

Table 8.4. Loan structure by types of economic activity

(UAH ths.)

Economic activity	**31.12.2017**		**31.12.2016**	
	amount	**%**	**amount**	**%**
Wholesale trade, except for trade of motor vehicles and motorcycles	106 352	24	1 309	1
Extraction of other non-ferrous metal ores	70 222	16	-	-
Activities of central administrations (head-offices), management consulting	57 611	13	28 571	15
Construction	47 717	11	29 489	15
Retail trade, except for trade of motor vehicles	42 030	9	40 153	21
Warehousing facilities	39 761	9	35 558	19
Non-specialized wholesale trade	33 019	7	-	-
Wholesale and retail trade of motor vehicles and motorcycles; repairs	22 553	5	17 317	9
Other types of lending activities	14 701	3	-	-
Production of meat products	6 087	1	-	-
Individuals	3 394	1	154	-
Chemicals and chemical product manufacturing	3 211	1	3 106	2
Rent and operation of owned and leased real estate	2 815	-	-	-
Activities in the sphere of architecture and engineering	1 294	-	-	-
Other	888	-	948	-

Insurance, reinsurance and non-state pension provision	-	-	34 291	18
Total loans and advances to customers, net of provisions	**451 655**	**100**	**190 896**	**100**

The Bank minimizes a concentration risk in the loan portfolio (concentration of credit transactions in a particular industry or group of related industries or lending to certain categories of customers) through diversification of the loan portfolio, which lies in the distribution of loans among borrowers who differ from each other both by characteristics (volumes of capital, forms of ownership) and by business environments (economic sector, geographic region).

Table 8.5. Information on loans by types of collateral for 2017

UAH, ths.	Loans to legal entities	Loans to individuals	Total
Unsecured loans	889	3 394	4 283
Loans secured by	447 372	-	447 372
real estate	197 924	-	197 924
other assets	249 448	-	249 448
Total loans and advances to customers, net of provisions	**448 261**	**3 394**	**451 655**

Table 8.6. Information on loans by types of collateral for 2016

UAH, ths.	Loans to legal entities	Loans to individuals	Total
Loans secured by:	190 742	154	190 896
real estate	145 546	154	145 700
other assets	45 196	-	45 196
Total loans and advances to customers, net of provisions	**190 742**	**154**	**190 896**

Table 8.7. Analysis of credit quality for 2017

UAH, ths.	Loans to legal entities	Loans to individuals	Total
Impaired loans estimated on individual basis:	448 261	3 394	451 655
non-impaired loans	444 968	3 394	448 362
overdue up to 365 days	83	-	83
overdue over 366 (367) days	3 210	-	3 210
Total loan amount including provisions	448 261	3 394	451 655
Provisions for loan impairment	(20 212)	(585)	(20 797)
Total loans, net of provisions	***428 049***	***2 809***	***430 858***

Table 8.8. Analysis of credit quality for 2016

UAH, ths.	Loans to legal entities	Loans to individuals	Total
Impaired loans estimated on individual basis:	190 742	154	190 896
non-impaired loans	187 636	154	187 790
overdue over 366 (367) days	3 106	-	3 106
Total loan amount including provisions	190 742	154	190 896
Provisions for loan impairment	(6 559)	(5)	(6 564)
Total loans, net of provisions	**184 183**	**149**	**184 332**

Table 8.9. Effect of collateral value on credit quality as of 31 December 2017

UAH, ths.	**Carrying amount**	**Collateral value**	**Expected cash flows from sale of collateral**	**Collateral effect**
1	2	3	4	5 = 2 - 4
Loans to legal entities	448 261	583 724	241 047	207 214
Consumer loans to individuals	3 394	-	-	3 394
Total loans	***451 655***	***583 724***	***241 047***	***210 608***

Table 8.10. Effect of collateral value on credit quality as of 31 December 2016

UAH, ths.	**Carrying amount**	**Collateral value**	**Expected cash flows from sale of collateral**	**Collateral effect**
1	2	3	4	5 = 2 - 4
Loans to legal entities	190 742	266 818	165 185	25 557
Consumer loans to individuals	154	3 504	154	-
Total loans	**190 896**	**270 322**	**165 339**	**25 557**

The Bank defines market value of a collateral in the form of mortgage of real estate, vehicles, integral property complexes, equipment, biological assets, property rights to real estate, products, commodities, future harvest, offspring of animals based on the assessment of such property conducted by an appraiser (at least once a year). In accordance with the internal regulations, the market value of collateral in the form of cash deposits is taken as their nominal value; for securities - market value determined by securities departments as current fair value of securities included into the stock register of securities traded on stock exchanges. The Bank determines the value of a collateral up to the conclusion of a credit agreement. Where significant changes have occurred in operating and physical condition of collateralized property and/or in market conditions since the date of the last assessment, the Bank reassesses such property, regardless of terms and conditions of loan and/or collateral agreement.

The Bank determines the expected cash flows from the sale of collateral considering future cash flows, which consist of the amount of expected payments from the sale of a collateral in accordance with the relevant contract (regardless of probability of foreclosure on such collateral), taking into account the time required to implement collateral.

The Bank preliminary assesses future cash flows under the contract as stipulated by the relevant internal regulations, developed in compliance with International Financial Reporting Standards. The estimated future cash flows from the sale of a collateral are reduced by the cost to sell.

The total amount of undiscounted future cash flows, including cash flows from the sale of a collateral, may not exceed the amount of payments stipulated in a credit agreement.

Future cash flows from a collateral are discounted given the time required by the Bank for the sale of collateral.

Note 9. Securities held at fair value through other comprehensive income

Table 9.1. Securities held at fair value through other comprehensive income

UAH, ths.	**31.12.2017**	**31.12.2016**
Debt securities – corporate bonds	27 348	25 482
Provision for impairment of securities	(27 348)	(25 482)
Total securities, net of provisions	-	-

Table 9.2. Analysis of credit quality of debt securities

UAH, ths.	**31.12.2017**	**31.12.2016**
Impaired debt securities estimated on an individual basis	27 348	25 482
Provision for impairment of securities	(27 348)	(25 482)
Total debt securities, net of provisions	-	-

During reporting year 2017 and previous year 2016, the Bank's portfolio comprised discount registered bonds (A series) of LLC "NAVIUM" in the amount of 2 486 188 pieces with the nominal value of UAH 11.00 per bond. The Bank recognized an 100% impairment for these securities.

Note 10. Securities held at amortized cost value

Table 10.1. Securities held at amortized cost value

UAH, ths.	**31.12.2017**	**31.12.2016**
Deposits certificates issued by NBU	150 103	62 044
Total securities, net of provisions	**150 103**	**62 044**

At the end of reporting year 2017 and previous year 2016, the Bank's portfolio comprised undue and non-impaired deposit certificates issued by the National Bank of Ukraine. The Bank has no securities transferred without derecognition as a collateral for repo transactions.

The data of Note 10 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Note 23.

Note 11. Property, Plant and Equipment and Intangible Assets

Table 11.1. Property, plant and equipment and intangible assets

UAH, ths.	Machinery and equipment	Vehicles	Tools, fixtures and fittings (furniture)	Other items of property, plant and equipment	Other non-current tangible assets	In-progress capital investments in property, plant and equipment and intangible assets	Intangible assets	Total
Carrying amount at the beginning of the reporting period	1 284	478	136	371	1 625	98	2 400	6 392
initial (revaluated) cost	2 778	849	230	775	5 498	98	4 511	14 739
depreciation/ amortisation at the beginning of the reporting period	(1 494)	(371)	(94)	(404)	(3 873)	-	(2 111)	(8 347)
Additions	5 305	2542	110	539	478	10 050	1 155	20 179
Disposals	(14)	-	-	(133)	-	(10 129)	-	(10 276)
initial (revaluated) cost	(1 131)	-	(7)	(381)	(4 958)	(10 129)	-	(16 606)
depreciation/ amortisation	1 117	-	7	248	4 958	-	-	6 330
Depreciation/amortisation charges	(1 016)	(174)	(41)	(65)	(1 892)	-	(244)	(3 432)
Carrying amount at the end of the reporting period	5 559	2 846	205	712	211	19	3 311	12 863
initial (revaluated) cost	6 952	3 391	333	933	1 018	19	5 666	18 312
depreciation/ amortisation at the end of the reporting period	(1 393)	(545)	(128)	(221)	(807)	-	(2 355)	(5 449)

As for the property, plant and equipment with the restricted rights on their possession, utilization and disposal, within the reporting period the Bank had on its books the following leased items: motor vehicle VW LNF T6 Kasten KR ND 2.0 TDI 140PS 6G – 2 units, under financial lease agreements No. 00014345, No. 00014469 dated 31.08.2017. PORSCHE LEASING LLC. As long as the contract is valid and effective, the Lessor retains the title to the leased property. After the contract expires and the last lease payment is made, the title to the leased property shall pass to the lessee. The Parties agree that the interest rate shall be variable and calculated based on the floating interest rate corresponding to the three-month rate under the Ukrainian Index for UAH Individual Deposit Rates.

The Bank does not have any property, plant and equipment and intangible assets pledged as collateral.

In the reporting period, intangible assets have not been generated by the Bank. Intangible assets with the restricted property rights are absent.

The initial value of fully depreciated property, plant and equipment amounted to UAH 723 thousand.

During the reporting period property, plant equipment and intangible assets were not revalued by the Bank.

The data of Note 11 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Note 23.

Note 12. Other financial assets

Table 12.1. Other financial assets

UAH, ths.	**31.12.2017**	**31.12.2016**
Income from cash management services, accrued but not received	19	3
Fees for guarantees granted, accrued but not received	572	198
Accounts receivable on transactions with other banks	524	1
Amounts of positive revaluation under spot contracts at FX market	5	-
Funds placed with other banks as a security	9 045	-
Settlement of accounts within international transfer systems	922	-
Accounts receivable on transactions with bank customers	52	-
Provision for impairment of other financial assets	(74)	(3)
Total other financial assets, net of provisions	**11 065**	**199**

During the reporting and previous years the Bank did not enter into finance lease contracts, where the Bank acted as a lessor.

Funds placed with other banks as a security shall include transaction relating to payment system settlements in the amount of UAH 625 thousand and cover funds serving as security that the Bank will fulfil its obligations to INTL FCStone Ltd (the United Kingdom), a non-banking financial brokerage company, under conversion agreements in the amount of UAH 8 420 thousand.

The data of Note 12 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Table 12.2. Analysis of changes in provision for impairment of other financial assets

UAH, ths.	Income from cash management services, accrued	Accounts receivable on transactions with other banks	Funds placed with other banks as a security	Accounts receivable on transactions with bank customers	Total
Balance as of 31 December 2015	(2)	(2)	-	-	(4)
Bad debts written-off	-	1	-	-	1
Balance as of 31 December 2016	(2)	(1)	-	-	(3)
(Increase)/decrease of provision	2	-	(21)	(52)	(71)
Balance as of 31 December 2017	-	(1)	(21)	(52)	(74)

In 2017, provisions were made to cover accounts receivable of SOTSKOM BANK CB PJSC in the amount of UAH 52 thousand. This bank was stricken off the bank register, so that the provision for such asset was re-classified from the Bank's Transaction Receivables to the Provisions for Bank's Client Transaction Receivables.

Table 12.3. Analysis of credit quality of other financial assets as of 31 December 2017

UAH, ths.	Income from cash management services, accrued	Accounts receivable on transactions with other banks	Fees for guarantees granted, accrued	Positive revaluation under spot contracts	Funds placed as a payment security	Accounts receivable on transactions with bank customers	Settlement of accounts within international transfer systems	Total
Neither overdue, nor impaired receivables	19	523	572	5	100	-	922	2 141
Receivables estimated on an individual basis:	-	1	-	-	8 945	52	-	8 998
- non-overdue	-	-	-	-	8 945	52	-	8 997
- overdue over 366 (367) days	-	1	-	-	-	-	-	1
Total other financial assets, including provision	19	524	572	5	9 045	52	922	11 139
Provision for impairment of other financial assets	-	(1)	-	-	(21)	(52)	-	(74)
Total other financial assets, net of provision	19	523	572	5	9 024	-	922	11 065

Table 12.4. Analysis of credit quality of other financial assets as of 31 December 2016

UAH, ths.	Income from cash management services, accrued	Accounts receivable on transactions with other banks	Fees for guarantees granted, accrued	Total
Neither overdue, nor impaired	1	-	198	199
Overdue receivables estimated on individual basis	2	1	-	3
from 184 to 365 (366) days	1	-	-	1
over 366 (367) days	1	1	-	2
Total other financial assets, including provision	3	1	198	202
Provision for impairment of other financial assets	(2)	(1)	-	(3)
Total other financial assets, net of provision	1	-	198	199

Note 13. Other Assets

Table 13.1. Other assets

UAH, ths.	**31.12.2017**	**31.12.2016**
Banking metal at bank outlet	428	-
Accounts receivable on assets purchase transactions	1 157	119
Prepaid services	274	492
Deferred expenses	1 452	510
Other assets	15	28
Provision for other assets	(343)	(98)
Total other assets, net of provisions	***2 983***	***1 051***

The data of Note 13 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Table 13.2. Analysis of changes in provision for impairment of other assets

UAH, ths.	**Accounts receivable on assets purchase transactions**	**Prepaid services**
Balance as of 31 December 2015	-	*(14)*
(Increase)/ decrease in impairment provision during previous period	-	(84)
Balance as of 31 December 2016	-	(98)
(Increase)/ decrease in impairment provision during reporting period	(294)	49
Balance as of 31 December 2017	***(294)***	***(49)***

Note 14. Due to banks

Table 14.1. Due to banks

UAH, ths.	**31.12.2017**	**31.12.2016**
Correspondent accounts of other banks	2	-
Total amounts due to banks	***2***	-

During the reporting and previous periods, the Bank has not failed to fulfil its obligations relating to principal amount and interest. The Bank had no assets delivered to third parties by way of security for its obligations under the funds received from the other banks and deposits with other banks taken as security for lending transactions.

The data of Note 14 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Note 15. Due to Customers

Table 15.1. Due to customers

UAH, ths.	**31.12.2017**	**31.12.2016**
Legal entities:	357 042	98 751
current accounts	196 495	13 415
term deposits	160 547	85 336
Individuals:	103 454	489
current accounts	10 939	23
term deposits	92 515	466
Total amounts due to customers	***460 496***	***99 240***

The data of Note 15 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Table 15.2. Amounts due to customers by types of economic activity

(UAH ths.)

Type of economic activity	**31.12.2017**		**31.12.2016**	
	amount	**%**	**amount**	**%**
Wholesale and retail sale, repairs of motor vehicles	175 052	38	40 541	41
Individuals	103 454	22	489	1
Financial services, except for insurance and pension provision	65 080	14	51 730	52
Agriculture, hunting and related services	28 299	6	-	-
Real estate operations	26 016	6	253	-
Warehousing facilities and transportation activities	25 960	6	612	1
Production of paper and paper products	8 680	2	-	
Construction	7 869	2	895	1
Production of rubber and plastic goods	6 961	2	-	-
Publishing	3 662	1	-	-
Waste collection and processing	2 736	-	1 400	1
Servicing of buildings and territories	1 252	-	-	-
Law practices, accounting, management consulting	1 039	-	-	-
Insurance	653	-	112	-
Other	3 783	1	190	-
Travel agencies	-	-	3 018	3
Total due to customers	***460 496***	***100***	***99 240***	***100***

During the reporting year 2017 and previous year 2016, the Bank carried out transactions to raise clients' funds at market rates only.

As at the end of the previous year 2016, the amount of funds due to customers collateralized for credit operations and issued guarantee amounted to UAH 38 900 thousand. As a part of this item, as of the end of the reporting year 2017, the amount of funds due to customers collateralized for credit operations and issued guarantee amounted to UAH 56 982 thousand.

Note 16. Financial Liabilities at Fair Value through Profit or Loss

Table 16.1. Financial liabilities at fair value through profit or loss

UAH, ths.	**31.12.2017**	**31.12.2016**
Liabilities (negative revaluation result) for forward contracts held-for-trading	1 029	867
Total financial liabilities at fair value through profit or loss	*1 029*	***867***

The data of Note 16 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Note 17. Debt Securities Issued by the Bank

Table 17.1. Debt securities issued by the Bank

UAH, ths.	**31.12.2017**	**31.12.2016**
Zero-coupon interest-bearing deposit certificates with 365 days maturity	177	10 952
Total	***177***	***10 952***

During the reporting year 2017, the Bank issued such debt securities as deposit certificates for the amount of USD 956 thousand. The securities so issued were interest-bearing coupon deposit certificates placed for the period from 181 to 365 days, with the interest payable upon redemption of the deposit certificates. During the previous year 2017, they were issued for the amount of USD 400 thousand and with the placement period from 91 to 183 days.

As at the end of the reporting year 2017 there were no any assets provided as a collateral for securities issued by the Bank. During reporting year 2017 and previous year 2016, the Bank did not issue convertible debt instruments (those including liability and equity components).

The data of Note 17 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Note 18. Other borrowings

Table 18.1. Other borrowings

UAH, ths.	**31.12.2017**	**31.12.2016**
Financial lease liabilities	1 546	-
Total	***1 546***	-

Data from Table 18.1. are used to complete the Statement of Financial Position (Balance Sheet), item "Other borrowings", and Statement of Cash Flows, item "Receipt of other borrowings".

During the reporting period, the Bank had no outstanding obligations relating to the principal amount and interest accrued thereon. At the end of 2017, the Bank signed a financial leasing (lease) agreement.

Table 18.2. Information on minimum lease payments due under financial lease, and their current value

UAH, ths.	From 1 to 5 years	Total
Future financial payments	1 546	1 546
Current value of minimum lease payment as of the end of the reporting period	1 546	1 546

According to the contract, lease and other payments were recognized at fair value of the leased property. As long as the contract is valid and effective, the lessor retains the title to the leased property.

After the contract expires and the last lease payment is made, the title to the leased property shall pass to the lessee. The Parties agree that the interest rate shall be variable and calculated based on a floating interest rate corresponding to the three-month rate under the Ukrainian Index for UAH Individual Deposit Rates.

Note 19. Provisions for Liabilities

Table 19.1. Changes in provisions for liabilities

UAH, ths.	**Provisions for lending commitments**	
	2017	**2016**
Opening balance	2 933	-
Formation and/or (reduction) of provision	136	2 933
Closing balance	3 069	2 933

The Bank applies the same risk management procedures for lending commitments as for the recognized credit operations. The maximum potential credit risk for lending commitments equals to the total liabilities. Considering the availability of a collateral and the fact that such commitments (excluding guarantees) are revocable, the management believes that the potential credit risk and potential liquidity risk are actually non-existent during these operations. In the reporting and previous years a provision is formed as a collateral for guarantees.

The data of Note 19 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Note 20. Other Financial Liabilities

Table 20.1. Other financial liabilities

UAH, ths.	31.12.2017	31.12.2016
Payables to customers at closed accounts	33	78
Accounts payable on trade with foreign currency for customers	-	741
Accounts payable on funds received as a security payment	163	-
Payments received in favour of customers	2	2
Amounts of negative revaluation under spot contracts at FX market	212	-
Other accounts payable for transactions with customers	51	1
Fees under issued guarantees	4 438	311
Accounts payable on customers' transfers	614	-
Total other financial liabilities	**5 513**	**1 133**

The data of Note 20 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Note 21. Other Liabilities

Table 21.1. Other liabilities

UAH, ths.	**31.12.2017**	**31.12.2016**
Vacation allowance	1 888	700
Deferred income	421	86
Payables for taxes and mandatory charges	222	19
Total other liabilities	**2 531**	**805**

The data of Note 21 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 23.

Note 22. Share capital and issue profit/loss (share premium)

Table 22.1. Share capital and issue profit/loss (share premium)

UAH, ths.	**Number of outstanding shares (thousand)**	**Ordinary shares**	**Total**
Balance as of the beginning of the previous period (01.01.2016)	**6 478**	**64 779**	**64 779**
Contributions for newly issued shares (interests, stocks)	6 500	65 000	65 000
Balance as of the end of the previous period (31.12.2016)	**12 978**	**129 779**	**129 779**
Contributions for newly issued shares (interests, stocks)	3 022	70 221	70 221
Balance as of the end of the reporting period (31.12.2017)	**16 000**	**200 000**	**200 000**

At the end of business on 31 December 2017, the Bank's registered and fully paid share capital amounted to UAH 200 000 thousand and consisted of 16 000 thousand ordinary registered shares with a nominal value of UAH 12.5 each. During 2017 the following changes have occurred to the share capital:

- under the resolution of the General Shareholders Meeting (Minutes No. 1/2017 of the General Shareholders Meeting, dated 24 February 2017), a part of profits in the amount of UAH 32 444 725,00 was applied to increase the authorized capital of PJSC BANK ALLIANCE by increasing the nominal value per share (from UAH 10,00 to UAH 12,50 each);
- under the resolution of the extraordinary General Meeting of Shareholders of PJSC BANK ALLIANCE, dated 8 June 2017 (minutes No. 2/2017), the Bank placed 3 022 110 ordinary shares for the total nominal value of UAH 37 776 375,00.

During 2017, the Bank did not purchase, sell previously repurchased shares, cancelled shares. The Bank did not issue preference shares. The Bank did not enter into agreements on the issue of shares depending on conditions of options and sales contracts.

The owners of ordinary registered shares are provided for with the rights stipulated by the current legislation of Ukraine, including the rights to: participate in the management of the Bank, namely the right to vote at the General Meeting of Shareholders on the principle "one voting share - one vote"; participate in the distribution of the Bank's profit and receive its share (dividends); obtain part of the Bank property or part of the Bank value in case of the Bank liquidation; obtain information on the financial activities of the Bank; use a priority right to purchase the Bank shares which are additionally allocated within the process of shares private placement; make free use of own shares without a consent of other shareholders and the Bank.

The data of Note 22 are disclosed in the Statement of Financial Position (Balance Sheet) and Statement of Changes in Equity (Statement of Equity).

Note 23. Analysis of Assets and Liabilities by Maturities

Table 23.1. Analysis of assets and liabilities by maturities

UAH, ths.	Notes	31.12.2017			31.12.2016		
		less than 12 months	more than 12 months	total	less than 12 months	more than 12 months	total
ASSETS							
Cash and cash equivalents	6	167 755	-	167 755	58 242	-	58 242
Financial assets at fair value through profit or loss	7	1 085	-	1 085	711	-	711
Loans and advances to customers	8	358 779	72 079	430 858	119 608	64 724	184 332
Securities held at amortized cost value	10	150 103	-	150 103	62 044	-	62 044
Deferred tax asset		552	-	552	-	-	-
Property, plant and equipment and intangible assets	11	-	12 863	12 863	-	6 392	6 392
Other financial assets	12	11 065	-	11 065	199	-	199
Other assets	13	2 983	-	2 983	1 051	-	1 051
Total assets		**692 322**	**84 942**	**777 264**	**241 855**	**71 116**	**312 971**
LIABILITIES							
Due to banks	14	2	-	2	-	-	-
Due to customers	15	458 596	1900	460 496	96 222	3 018	99 240
Financial liabilities at fair value through profit or loss	16	1 029	-	1 029	867	-	867
Debt securities issued by the Bank	17	177	-	177	10 952	-	10 952
Other borrowings	18		1 546	1 546	-	-	-
Current income tax payable		13 057	-	13 057	9 263	-	9 263
Provisions for liabilities	19	3 062	7	3 069	2 933	-	2 933
Other financial liabilities	20	2 497	3 016	5 513	1 133	-	1 133
Other liabilities	21	2 531		2 531	105	700	805
Total liabilities		**480 951**	**6 469**	**487 420**	**121 475**	**3 718**	**125 193**

The data of Note 23 are disclosed in the Statement of Financial Position (Balance Sheet).

Note 24. Interest income and expenses

Table 24.1. Interest income and expenses

UAH, ths.	**2017 (Year To Date)**	**2016 (Year To Date)**
INTEREST INCOME:		
Loans and advances to customers	53 750	20 815
Debt securities held at fair value through other comprehensive income	1 866	1 901
Due from other banks	3 293	1 111
Correspondent accounts with other banks	3	139
NBU deposit certificates held at amortized cost value	1 801	3 452
Total interest income	***60 713***	***27 418***
INTEREST EXPENSES:		
Term deposits of legal entities	(5 204)	(1 307)
Term deposits of individuals	(2 605)	(2)
Term deposits of other banks	(33)	(1)
Corporate current accounts	(2 239)	(754)
Current funds of individuals	(34)	-
NBU deposit certificates held at amortized cost value	(1 155)	(91)
Subordinated debt	-	(1 635)
Financial leasing (lease) liabilities	(111)	-
Total interest expenses	***(11 381)***	***(3 790)***
Net interest income (expenses)	***49 332***	***23 628***

The data of Note 24 are disclosed in the Comprehensive Profit and Loss Statement (Profit and Loss Statement) and Note 31.

Note 25. Commission income and expenses

Table 25.1. Commission income and expenses

UAH, ths.	**2017 (Year To Date)**	**2016 (Year To Date)**
COMMISSION INCOME:		
Cash and settlements operations	16 264	707
Credit services to customers	132	2
Currency market trading for customers	7 400	2 731
Guarantees issued	12 408	530
Transactions with securities for customers	665	-
Other	111	1
Total commission income	***36 980***	***3 971***
COMMISSION EXPENSES:		
Cash and settlements operations	(6 723)	(531)
Transactions with securities for customers	(168)	-
Other	(1)	-
Total commission expenses	***(6 892)***	***(531)***
Net commission income/expenses	***30 088***	***3 440***

The data of Note 25 are disclosed in the Comprehensive Profit and Loss Statement (Profit and Loss Statement) and Note 31.

Note 26. Other income

Table 26.1. Other income

UAH, ths.	**2017 (Year To Date)**	**2016 (Year To Date)**
Operating income from assignment of claims under loan agreements with legal entities	1 007	1 763
Income from safe deposit box rental	225	-
Income from entering data into State Register of Movable Property Encumbrances	58	-
Penalties and fines received by the Bank	31	-
Writing off of customer funds from inactive accounts to the bank income	29	-
Income from transactions under agency agreements	20	-
Income upon recognition of a new financial instrument under loans	3	-
Other	17	11
Total other income	***1 390***	***1 774***

The data of Note 26 are disclosed in the Comprehensive Profit and Loss Statement (Profit and Loss Statement) and Note 31.

Note 27. Administrative and other operating expenses

Table 27.1. Administrative and other operating expenses

UAH, ths.	**2017 (Year To Date)**	**2016 (Year To Date)**
Personnel expenses	(36 168)	(15 370)
Depreciation of property, plant and equipment	(3 189)	(1 326)
Amortization of software and other intangible assets	(243)	(63)
Expenses for maintenance of property, plant and equipment and intangible assets, telecommunication and other operating services	(10 407)	(3 967)
Operating lease expenses	(8 007)	(3 895)
Other expenses attributable to property, plant and equipment	(147)	-
Professional services	(1 815)	(804)
Marketing and advertising expenses	(72)	(35)
Insurance expenses	(44)	(36)
Payment of other taxes and duties, other than income tax	(1 149)	(386)
Funds raising fee	(5 797)	-
Other	(4 207)	(956)
Total administrative and other operating expenses	***(71 245)***	***(26 838)***

The data of Note 27 are disclosed in the Comprehensive Profit and Loss Statement (Profit and Loss Statement) and Note 31.

Note 28. Result of Transactions with Financial Assets at Fair Value through Profit or Loss

Table 28.1. Result of transactions with financial assets at fair value through profit or loss

UAH, ths.	**2017 (Year To Date)**	**2016 (Year To Date)**
Result of transactions with derivative financial instruments held at fair value through profit or loss	4 086	(2)
Total result of transactions with financial assets held at fair value through profit or loss	***4 086***	***(2)***

The data of Note 28 are disclosed in the Comprehensive Profit and Loss Statement (Profit and Loss Statement).

Note 29. Income tax expenses

Table 29.1. Income tax expenses

UAH, ths.	**2017**	**2016**
Current income tax	14 832*	12 249
Change in deferred income tax	(552)	-
Total income tax expenses	**14 280***	**12 249**

The data of Note 29 are disclosed in the Comprehensive Profit and Loss Statement (Profit and Loss Statement).

* - PJSC BANK ALLIANCE paid in October 2017 tax liabilities in the amount of UAH 295 thousand based on findings of the inspection undertaken to verify whether the Bank complied with the tax laws during the period from 2014 to the 2017 first quarter. The aforementioned amount was recognized in the current profit tax and profit tax expenses.

In 2017, the Bank recognized deferred tax assets of UAH 552 thousand.

Table 29.2. Reconciliation of accounting profit (loss) and taxable profit (loss)

Line	*UAH, ths.*	2017	2016
1	Profit before tax	79 121	62 285
2	Theoretical tax deductions at applicable tax rate	14 242	11 211
ADJUSTMENTS TO THE REPORTED PROFIT (LOSS):			
3	Expenses not included in the amount of expenses aiming at taxable income calculation, but recognized in the accounting records	6 334	7 636
3.1.	Differences that arise at accrual of depreciation of non-current assets and increase financial result	3 118	1 389
3.2.	Differences that arise at formation of provisions and increase financial result	3 069	6 196
3.3.	Differences that arise from payment of membership fees and increase financial result	-	51
3.4	Differences that arise upon sale of property, plant and equipment and financial result is increased by the amount of residual value	147	-
4	Expenses included in the amount of expenses aiming at taxable income calculation, but not recognized in the accounting records (differences that arise at accrual of depreciation of non-current assets and reduce financial result)	(4 696)	(1 873)
4.1	Differences that arise at accrual of depreciation of non-current assets and reduce financial result	(1 764)	(1 144)
4.2	Differences that arise at formation of provisions and reduce financial result	(2 932)	-
4.3	Differences that arise at recognition of negative value of tax return for 2015 and reduce financial result	-	(729)
5	Income tax expenses	14 280	12 249

The Bank adopted a decision to recognize deferred tax assets in the amount of UAH 552 thousand in the Bank's balance sheet. Based on the results for the year, the Bank has differences arising upon making provisions for guarantee assets impairment and increasing the financial result before tax in the amount of UAH 3 069 thousand. As the matter of the Bank's experience of dealing with guarantees in 2017, the provision for guarantee asset impairment in 2016 for the total amount of UAH 2 932 was undone once the guarantees matured in 2017.

In reporting year 2017 the Bank's profit taxation was carried out according to Section III of the Tax Code of Ukraine. Income tax rate for 2017 was 18%.

Table 29.3. Tax implications related to recognition of deferred tax assets and deferred tax liabilities for 2017

UAH, ths.	**Balance at the beginning of the period**	**Recognised in profit/ loss**	**Recognised in other comprehensive income**	**Recognised in equity**	**Balance at the end of the period**
Tax effect of **temporary differences** that decrease (increase) taxes payable and tax losses carried forward	5 763	(1 638)	-	-	1 638
Net deferred tax asset	-	(552)	-	-	552
Recognised deferred tax liability	-	-	-	-	-

Table 29.4. Tax implications related to recognition of deferred tax assets and deferred tax liabilities for 2016

UAH, ths.	**Balance at the beginning of the period**	**Recognised in profit/ loss**	**Recognised in other comprehensive income**	**Recognised in equity**	**Balance at the end of the period**
Tax effect of **temporary differences** that decrease (increase) taxes payable and tax losses carried forward		(5 763)	-	-	5 763
Net deferred tax asset	-	(1 038)*	-	-	1 038*
Recognised deferred tax liability	-	-	-	-	-

* The Bank made managerial decision in 2016 that the Bank shall not recognize in its balance sheet the deferred tax assets for the amount of UAH 1 038 thousand as there was no certainty that the asset would be sold.

Note 30. Profit/(Loss) per Ordinary Share

Table 30.1. Net and adjusted profit/(loss) per one ordinary share

UAH, ths.	**2017 (Year To Date)**	**2016 (Year To Date)**
Profit/(loss) for the quarter (year to date)	64 290	50 036
Profit/(loss) attributable to the holders of ordinary shares of the Bank	64 290	50 036
Average annual number outstanding ordinary shares (ths.)	14 510	10 172
Net and adjusted profit/(loss) per ordinary share (UAH)	4,43	4,92

The data of Note 30 are disclosed in the Comprehensive Profit and Loss Statement (Profit and Loss Statement).

Note 31. Operating segments

Table 31.1. Income, expenses and results of reporting segments for 2017

UAH, ths.	Reporting segments				Other segments and operations	Total
	services to corporate customers	services to individuals	interbank operations	investment activity		
Income from external customers:						
Interest income	53 355	396	3 296	3 666	-	60 713
Commission income	24 227	2 556	10 197	-	-	36 980
Other income	1 162	228	-	-	-	1 390
Total segment income	78 744	3 180	13 493	3 666	-	99 083
Interest expenses	(7 553)	(2 640)	(33)	(1 155)	-	(11 381)
Allocated to the provision for impairment of loans and due from banks	(13 555)	(582)	(4 049)	-	-	(18 186)
Allocated to the provision for impairment of accounts receivable	(50)	-	-	-	(245)	(295)
Gains from transactions with financial instruments held at fair value through profit or loss	-	-	4 086	-	-	4 086
Gains from foreign currency transactions	-	(456)	85 292	-	-	84 836
Gains less losses from revaluation of foreign currency transactions	-	-	-	-	567	567
Commission expenses	(168)	-	(6 724)	-	-	(6 892)
Impairment of securities held at fair value through other comprehensive income	-	-	-	(1 866)	-	(1 866)
Allocated to the provision for liabilities	(137)	-	-	-	-	(137)
Administrative and other operating expenses	-	-	-	-	(71 245)	(71 245)
SEGMENT RESULT: Profit/(loss) before tax	**57 281**	**(499)**	**92 065**	**646**	**(70 923)**	**78 570**

Table 31.2. Income, expenses and results of reporting segments for 2016

UAH, ths.	Reporting segments				Other segments and operations	Total
	services to corporate customers	services to individuals	interbank operations	investment activity		
Income from external customers:						
Interest income	20 762	53	1 250	5 353	-	27 418
Commission income	3 877	63	31	-	-	3 971
Other income	1 774	-	-	-	-	1 774
Total segment income	26 413	116	1 281	5 353	-	33 163
Interest expenses	(3 275)	(514)	(1)	-	-	(3 790)
Allocated to the provision for impairment of loans and due from banks	4 913	55	1 882	-	-	6 850
Allocated to the provision for impairment of accounts receivable	-	-	-	-	(84)	(84)
Gains from transactions with financial instruments held at fair value through profit or loss	-	-	(2)	-	-	(2)
Gains from foreign currency transactions	-	20	55 291	-	-	55 311
Gains less losses from revaluation of foreign currency transactions	-	-	-	-	3 040	3 040
Commission expenses	-	-	(531)	-	-	(531)
Impairment of securities held at fair value through other comprehensive income	-	-	-	(1 901)	-	(1 901)
Allocated to the provision for liabilities	(2 933)	-	-	-	-	(2 933)
Administrative and other operating expenses	-	-	-	-	(26 838)	(26 838)
SEGMENT RESULT: Profit/(loss) before tax	**25 118**	**(323)**	**57 920**	**3 452**	**(23 882)**	**62 285**

Table 31.3. Assets and liabilities of reporting segments as of 31 December 2017

UAH, ths.	Reporting segments			Other segments and operations	Total
	services to corporate customers	services to individuals	interbank operations		
SEGMENT ASSETS					
Segment assets	429 704	2 667	281 319	-	713 690
Unallocated assets	-	-	-	63 574	63 574
Total assets	**429 704**	**2 667**	**281 319**	**63 574**	**777 264**
SEGMENT LIABILITIES					
Segment liabilities	380 316	103 795	1 243	-	485 354
Unallocated liabilities	-	-	-	2 066	2 066
Total liabilities	**380 316**	**103 795**	**1 243**	**2 066**	**487 420**

Table 31.4. Assets and liabilities of reporting segments as of 31 December 2016

UAH, ths.	Reporting segments				Other segments and operations	Total
	services to corporate customers	services to individuals	interbank operations	investment activity		
SEGMENT ASSETS						
Segment assets	184 382	149	55 232	62 044	-	301 807
Unallocated assets	-	-	-	-	11 164	11 164
Total assets	**184 382**	**149**	**55 232**	**62 044**	**11 164**	**312 971**
SEGMENT LIABILITIES						
Segment liabilities	102 736	11 441	867	-	-	115 044
Unallocated liabilities	-	-	-	-	10 149	10 149
Total liabilities	**102 736**	**11 441**	**867**	**-**	**10 149**	**125 193**

Note 32. Financial Risk Management

Risk management is an important factor in the banking business and an essential element of the Bank's operations. The main risks faced by the Bank include: credit risk, market risk (comprising risk of changes in foreign exchange rates and interest rates), liquidity risk and operational risk.

The Bank performs the integral risk management, while risks are assessed on the basis of the Bank's policy, which is reviewed and approved by the Supervisory Board of the Bank. Risk limits are set for credit risk, market risk and liquidity risk, and risk levels are maintained within these limits. The Bank has introduced the calculation and implementation of risk appetite (tolerance) to operational risks.

Credit risk

Credit risk is the risk of financial losses due to the possible failure to fulfil the commitments before the Bank by a borrower or counterparty. The Bank has developed policies and procedures for credit risk managing (both for balance sheet and off-balance sheet items).

For the purpose of the financial statements regarding the risk management, the Bank considers and consolidates all elements of credit risk (such as the risk of default by individual customers and counterparties, as well as risks inherent to certain countries and industries).

As the Management Board of the National Bank of Ukraine adopted and introduced its resolution No. 351, dated 30 June 2016, under which the Bank shall calculate its uncovered credit risk as difference between provisions made for active transactions and off-balance lending liabilities, the uncovered credit risk amounted, as of 1 January 2018, to UAH 7,3 mln. The amount of the uncovered credit risk reduces the bank's regulatory capital and is reflected in the regulatory capital structure as of 1 January 2018.

Market risk

Market risk is the actual or potential risk to income and equity arising from unfavourable fluctuations in market rates, such as foreign exchange rates, interest rates, credit spreads and securities quotations. The Bank is exposed to market risks arising from open positions in interest rates, currency and equity products, which are largely exposed to general and specific market movements.

The goal of market risk management is the management and control of the market risk within the accepted indexes while optimizing the return on risk.

The Bank quarterly takes stress-testing, the results of which are considered at the Meetings of the Management Board for timely response to changing market conditions and performance of market environment.

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency exceed or fall behind the liabilities in the same currency. The management establishes limits and continuously monitors currency positions in compliance with the provisions of the NBU and the approved internal methodology.

The Bank's total foreign currency risk generates no capital loading and proceeds to the Bank.

Table 32.1. Foreign currency risk analysis

(UAH. ths.)

Currency	**31.12.2017**				**31.12.2016**			
	monetary assets	**monetary liabilities**	**Financial derivatives**	**net position**	**monetary assets**	**monetary liabilities**	**Financial derivatives**	**net position**
USD	123 770	184 717	58 995	(1 952)	-	3 770	2 939	(831)
EUR	26 034	12 849	(17 484)	(4 299)	3 022	-	(2 773)	249
GBP	120	-	-	120	52	-	-	52
RUB	1 347	302	-	1 045	9	-	-	9
Gold	428	-	-	428	-	-	-	-
Total	**151 699**	**197 868**	**41 511**	**(4 658)**	**3 083**	**3 770**	**166**	**(521)**

Table 32.2. Changes in financial result and equity due to possible changes in exchange rates set as of the reporting date, provided that all other variables remain unchanged

(UAH ths.)

Currency	As of 31.12.2017		As of 31.12.2016	
	impact on profit / (loss)	impact on equity	impact on profit / (loss)	impact on equity
USD strengthening by 5%	(3 047)	(3 047)	(189)	(189)
USD weakening by 5%	2 902	2 902	180	180
EUR strengthening by 5%	660	660	151	151
EUR weakening by 5%	(628)	(628)	(144)	(144)
GBP strengthening by 5%	6	6	3	3
GBP weakening by 5%	(6)	(6)	(2)	(2)
RUB strengthening by 5%	52	52	-	-
RUB weakening by 5%	(49)	(49)	-	-
Gold strengthening by 5%	21	21	-	-
Gold weakening by 5%	(20)	(20)	-	-

Table 32.3. Changes in financial result and equity due to possible changes in exchange rates set as a weighted average exchange rate, provided that all other variables remain unchanged

(UAH. ths.)

Currency	Weighted average exchange rate in 2017		Weighted average exchange rate in 2016	
	impact on profit / (loss)	impact on equity	impact on profit / (loss)	impact on equity
USD strengthening by 5%	(2 888)	(2 888)	(177)	(177)
USD weakening by 5%	2 750	2 750	169	169
EUR strengthening by 5%	592	592	151	151
EUR weakening by 5%	(564)	(564)	(143)	(143)
GBP strengthening by 5%	5	5	3	3
GBP weakening by 5%	(5)	(5)	(3)	(3)
RUB strengthening by 5%	49	49	-	-
RUB weakening by 5%	(47)	(47)	-	-
Gold strengthening by 5%	20	20	-	-
Gold weakening by 5%	(19)	(19)	-	-

Interest rate risk

Interest rate risk arises from the possibility of adverse changes in market interest rates that create a negative impact on interest income and equity.

Interest rate risk is measured by the extent of impact of changes in market interest rates on interest rate margin and net interest income. When the structure of assets that generate interest income differs from the structure of liabilities bearing interest, net interest income will increase or decrease as a result of changes in interest rates. As part of the interest rate risk management, the Bank's management continually assesses market interest rates on various types of assets and liabilities for which interest is charged.

Interest rate margin on assets and liabilities with different payouts and maturities may increase as a result of changes in market interest rates. In practice, the management changes interest rates for certain financial assets and liabilities based on current market conditions and reciprocal arrangements documented as a supplement to the main agreement, where the new interest rate is indicated.

The Bank has no financial instruments with a floating interest rate. The Bank does not account for any of its financial instruments with fixed interest rates at fair value (with changes recognized in profit or loss). Accordingly, a change in interest rates would have no impact on profit or loss.

Table 32.4. General analysis of interest rate risk

UAH, ths.	**On demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than a year**	**Total**
2017					
Total financial assets	186 798	178 200	152 918	76 289	594 205
Total financial liabilities	108 707	52 579	90 057	-	251 343
Net GAP on interest-bearing assets and liabilities as at the end of reporting period	78 091	125 621	62 861	76 289	342 862
2016					
Total financial assets	118 554	30 199	85 779	40 098	274 630
Total financial liabilities	43 764	52 301	-	-	96 065
Net GAP on interest-bearing assets and liabilities as at the end of reporting period	74 790	(22 102)	85 779	40 098	178 565

Liquidity risk

Liquidity risk - existing or potential risk, which arises from the failure of the Bank to meet its obligations in due time, without incurring unacceptable losses.

Assets, liabilities and liquidity are managed by the Asset and Liability Committee (ALCO). The ALCO analyses assets and liabilities by maturities and provides recommendations on elimination of inconsistencies arising over time. In addition, the ALCO considers the cost of liabilities and profitability of assets, analyses the compliance with economic standards, monitors compliance with reserving requirement established by the National Bank of Ukraine and provides recommendations on asset and liability management to comply with regulatory parameters. The ALCO is also responsible for the optimization of cash flows and ensuring payment discipline; coordinates corporate forecasting system and so on.

Liquidity risk is a key financial risk, the Banks stable financial position depends on the effective liquidity risk management. In order to manage liquidity risk, the Bank analyses the structure of assets and liabilities, liquidity conditions as a whole, in all currencies, and in the context of each individual currency of the Bank's transactions. In addition, the Bank's adherence to the requirements of mandatory reserving of raised funds on correspondent accounts, economic standards set by the National Bank of Ukraine (H4 instant liquidity ratio, H5 current liquidity ratio, H6 short-term liquidity ratio) and internal regulations is subject to controls. An important tool for the effective liquidity management is to use the maturity balancing analysis method for active deposits and borrowed funds, cash flow forecasting.

Compliance with the established limits shall be monitored daily on a basis of the report on the adherence to the established limits.

Table 32.5. Analysis of financial liabilities by maturities for 2017

UAH, ths.	**On demand and less than 1 month.**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Due to banks	2	-	-	-	2
Due to customers:	318 062	39 668	102 968		460 698
funds of individuals	54 675	14 668	34 301	-	103 644
other	263 387	25 000	68 667	-	357 054
Other financial liabilities	1 167	13 057	2 926	4 805	21 955
Other credit-related commitments	81 612	85 296	316 426	33 210	516 544
Currency before transfer under FX transactions	1 231 001	-	-	-	1 231 001
Total potential future payments related to financial liabilities	1 949 906	177 689	525 288	38 015	2 690 898

Due to customers are recognized as the amounts the Bank is liable to pay, without any discount or premium.

Table 32.6. Analysis of financial liabilities by maturities for 2016

UAH, ths.	**On demand and less than 1 month.**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Due to customers:	57 550	41 705	10 953	-	110 208
funds of individuals	489	-	10 953	-	11 442
other	57 061	41 705	-	-	98 766
Other financial liabilities	823	-	311	700	1 834
Other credit-related commitments	-	-	150 863	-	150 863
Currency before swap transactions	258 782	-	-	-	258 782
Total potential future payments related to financial liabilities	317 155	41 705	162 127	700	521 687

Table 32.7. Analysis of financial assets and liabilities by maturities based on expected maturities for 2017

UAH, ths.	**On demand and less than 1 month.**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	167 755	-	-	-	-	167 755
Financial assets held at fair value through profit or loss	1 085	-	-	-	-	1 085
Securities (certificates of deposits issued by NBU)	150 103	-	-	-	-	150 103
Loans and advances to customers	80 433	10 080	262 513	77 832	-	430 858
Other financial assets	11 060	-	5	-	-	11 065
Total financial assets	410 436	10 080	262 518	77 832	-	760 866
Liabilities						
Due to other banks	2	-	-	-	-	2
Due to customers	317 861	39 668	102 967	-	-	460 496
Financial liabilities held at fair value through profit or loss	1 029					1 029
Debt securities issued by the Bank	-	177	-	-	-	177
Other borrowings	-	-	-	1 546	-	1 546
Other financial liabilities	917	-	3 466	1 130	-	5 513
Total financial liabilities	319 809	39 845	106 433	2 676	-	468 763
Net liquidity GAP as of 31 December	90 627	(29 765)	156 085	75 156	-	292 103
Total liquidity GAP as of 31 December (COB)		60 862	216 947	292 103	292 103	

Table 32.8. Analysis of financial assets and liabilities by maturities based on expected maturities for 2016

UAH, ths.	On demand and less than 1 month.	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	8 273	-	-	-	-	8 273
Trading securities	62 044	-	-	-	-	62 044
Due from other banks	49 969	-	-	-	-	49 969
Loans and advances to customers	59 519	20 086	70 557	40 314	-	190 476
Securities held at fair value through other comprehensive income	-	-	-	27 348	-	27 348
Other financial assets	199	-	-	3 151	3 251	6 601
Swap transaction requirements	259 012	-	-	-	-	259 012
Total financial assets	439 016	20 086	70 557	70 813	3 251	603 723
Liabilities						
Due to other banks	-	-	-	-	-	-
Due to customers	57 550	41 689	10 953	-	-	110 192
Other financial liabilities	823	-	311	700	-	1 834
Swap transaction liabilities	258 782	-	-	-	-	258 782
Lending commitments	-	-	150 863	-	-	150 863
Total financial liabilities	317 155	41 689	162 127	700	-	521 671
Net liquidity GAP as of 31 December	121 861	-21 603	-91 570	70 113	3 251	82 052
Total liquidity GAP as of 31 December (COB)	121 861	100 258	8 688	78 801	82 052	82 052

Lending liabilities are classified as per their maturities based on their expected repayments in 2017, subject to guarantee potential disclose ratio set at the level of 50%, which is consistent with CCF method used to calculate the credit risk and to make provisions.

Geographical risk

Geographical risk is the risk of financial losses due to the possible failure to fulfil the commitments before the Bank by customers or counterparties residing in a particular country and therefore subject to the risks inherent into this country. Geographical risk is managed through assessing risks peculiar to each country (region, if necessary), which is considered by the management in decision-making. Geographical risk assessment is carried out by the risk management unit and approved by the appropriate authority of the Bank.

Operational risk

Operational risk is the risk of financial losses due to inadequacy or failures in internal processes, human factor, failures and errors in systems, and impact of external events. This includes, in particular, all types of fraud, legal risk. In case of a system upset, operational risk may lead to financial losses, have legal or regulatory implications, or cause damage to reputation.

The Bank holds monthly expert assessments of operational risks. According to its results, the decisions are taken on the implementation of appropriate measures to minimize and prevent operational risks. In addition, the assessment includes both monitoring of risk events and pro-active management of foreseeable operational risks.

The level of operational risk has been reduced by means of a comprehensive set of measures, including:

- introduction of a system for operational risks incident management;
- analysis and monitoring of processes, products in terms of operational risk management;
- personnel training and awareness of operational risk as a whole;
- control over compliance by the Bank's employees with the regulations.

Note 33. Capital Management

The Bank's capital is assessed and analysed by the individual components of its types, taking into account the convention of this approach and interrelation of all types.

The regulatory capital is one of the most important Bank's activity indicators, which main purpose is to cover negative implications of different risks that Bank takes during its activity and to ensure the protection of deposits, financial firmness and the Bank stability.

Table 33.1 Regulatory capital structure

(UAH ths.)

Line	Item	31.12.2017	31.12.2016
1	Core capital	222 243	135 338
1.1	Actually paid authorized share capital	200 000	129 779
1.2	Disclosed provisions created or increased by retained earnings:	25 554	22 791
1.2.1	General provisions and reserve funds formed under the laws of Ukraine	24 426	22 791
1.2.1.1	including reserve funds	24 426	21 662
1.3	Reduction of core capital (intangible assets less amortization; capital investments in intangible assets; loss for previous and current years), including:	(3 311)	(17 232)
1.3.1	intangible assets less amortization	(3 311)	(2 404)
1.3.2	Uncovered historical loss	-	(14 828)
2	Additional capital	72 578	38 279
2.1	Provisions for standard due from other banks, standard due under loans to customers and standard due under transactions at off-balance sheet accounts (including revaluation of fixed assets)	-	2 451
2.2	Current year profit	72 578	35 828
2.2.1	Current year financial results	80 226	36 067
2.2.2	Financial results decrease amount	(7 648)	(240)
2.2.2.1	Uncovered credit risk amount	(7 252)	-
3	Redeployment	(133)	-
4	***Total regulatory capital***	**294 688**	**173 617**

The Bank's regulatory capital is an aggregate of core (tier 1) and additional (tier 2) capital.

The components and procedures of calculation of the Bank's basic and additional capitals are governed by the Instruction on the Order of Regulation of Bank Activities in Ukraine No. 368 approved by the NBU on 28 August 2001 (hereinafter – "the Instruction") and Methodology for Calculation of Economic Standards of Regulation of Banks in Ukraine approved by Decree No. 803-рш of the Board of the National Bank of Ukraine on 15 December 2017.

Capital management processes represent the sequence of the following actions:

- quality control of all the assets and off-balance sheet liabilities;

- implementation of appropriate adjustments of their value by forming provisions to cover the expected losses for liabilities of counterparties;

- adjustment of a capital amount by the volumes of contributions according to the Methodology;

- calculation of the projected norms of a regulatory capital;

- permanent analysis of changes in the absolute value of a regulatory capital by components in the context of items;

- assessment of impact of changes in capital volume to other standards, in the calculation of which the regulatory capital ratio is used.

Regulatory capital adequacy ratio calculated according to the requirements of the NBU amounts to 18.7% with the threshold value of 10%. As of 31 December 2017, the Bank's regulatory capital amounted to UAH 294 688 thousand.

Note 34. Contingent Liabilities of the Bank

1) legal proceedings

As at 31 December 2017 (end of day), there are no any litigations where the Bank appears as the defendant, therefore there are no any contingent liabilities regarding legal proceedings.

2) contingent tax liabilities

The ambiguity of interpretations by the State Tax Service of Ukraine on separate taxation issues and frequent changes in tax legislation do not exclude the risk of possible additional charges of tax liabilities, fines, penalties in the future. However, given that the Bank's policy on taxation of banking transactions with income tax, accruals and payments of other taxes, fees, mandatory payments is based on the principles of compliance with current tax laws, prudence and diligence, the management consider the potential tax risks of future cash outflows due to the payment of any additional tax liabilities, fines, penalties to be remote and insignificant.

3) capital investment commitments

The Bank has no contractual obligations related to the reconstruction of buildings, purchase of property, equipment and intangible assets.

4) operating lease commitments

The Bank did not enter into non-cancellable operating lease agreements, therefore, it has not had any potential liability for non-cancellable lease payments.

5) adherence to special requirements

The Bank did not enter into agreements for the receipt of funds on special requirements.

6) credit-related commitments

Table 34.1. Structure of credit-related commitments

UAH, ths.	**31.12.2017**	**31.12.2016**
Credit-related commitments provided	143 285	9 047
Guarantees issues	516 544	150 863
Provision for credit-related commitments	(3 069)	(2 933)
Total credit-related commitments, net of provision	**656 760**	**156 977**

Table 34.2. Credit-related commitments by currencies

UAH, ths.	**31.12.2017**	**31.12.2016**
UAH	654 757	156 977
USD	279	-
EUR	1 724	-
Total	**656 760**	**156 977**

7) collateralised assets and assets with restrictions on their title, use and disposal

As at 31 December 2017 (end of day), the Bank did not provide any assets as collateral without termination of their recognition. The Bank has had no assets with restrictions on their title, use and disposal by the Bank.

Note 35. Derivative Financial Instruments

Table 35.1. Fair value of derivative financial instruments recorded in the Bank's trading portfolio

Item	31.12.2017		31.12.2016	
	positive fair value	positive fair value	positive fair value	negative fair value
Swap forward contracts	1 085	(1 029)	711	(867)
Net fair value	**56**	-	-	**(156)**

During 2017 and 2016, the Bank did not use derivative financial instruments for hedge accounting.

Note 36. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled in a transaction between knowledgeable, willing parties. The basis of fair value determining is the principle of going concern at the company that has no intention or necessity to go into liquidation, significantly reduce the scope of activities or carry out transactions on unfavourable terms.

During initial recognition financial assets and liabilities are measured at fair value. The basis for determining the initial fair value during a transaction is represented in one case by quoted market prices for an instrument, in another case by evaluation methods and the method of discounted cash flow analysis. If it is impossible to reliably determine the fair value of equity instruments, it is permitted to use the assessment at cost less depreciation expenses. The fair value of a financial instrument on initial recognition is deemed to be a transaction price - the fair value of compensation received or transferred.

Financial instruments determined at fair value are divided into a three-level hierarchy:

- *Level 1*: price quotations in active markets for identical assets or liabilities;
- *Level 2*: inputs other than price quotations included in Level 1 that are observed for assets or liabilities either directly or indirectly;
- *Level 3*: inputs of assets or liabilities not based on observable market data.

The best evidence of fair value of a financial asset or liability is a quoted price in an active market. A financial instrument is considered to be quoted in an active market, if quoted prices are easily and regularly available and represent actual and regularly occurring market transactions carried out between independent parties. Fair value is the price agreed between a willing buyer and a willing seller in a transaction between independent parties. The objective of fair value determining for a financial instrument traded in an active market is to receive the price suitable for the transaction with this instrument at the end of the reporting period in the most favourable active market accessible by the Bank.

In the absence of an open market for a financial instrument, the Bank determines its fair value using assessment methods. These methods are based on the use of a recent market transactions between knowledgeable, willing and independent parties (if any), on the reference to the current fair value of other similar instruments, discounted cash flow analysis. The aim of using evaluation methods is to determine what would be the price of a transaction at the assessment date between the independent parties, based on normal business considerations. Fair value is measured on the basis of the results of assessment methods utilization, where most market indicators are accounted for (and least - data specific to the Bank). The Bank periodically examines methods of assessment and reviews them for validity by applying the prices of observable current market transactions with the same instruments or based on other available observable market data.

Table 36.1. Fair value and layers of input data used for various techniques of assets and liabilities valuation for 2017

UAH, ths.	Fair value based on different valuation techniques			Total fair value	Total carrying value
	Level 1	Level 2	Level 3		
FINANCIAL ASSETS					
Cash and cash equivalents	47 177	120 578	-	167 755	167 755
Cash	47 177	-	-	47 177	47 177
Balances in National Bank of Ukraine (excluding mandatory reserves)	-	11 883	-	11 883	11 883
Balances at correspondent accounts with Ukrainian banks	-	108 695	-	108 695	108 695
Financial assets at fair value through profit or loss	1 085	-	-	1 085	1 085
Loans and advances to customers	-	-	430 858	430 858	430 858
Securities held at amortized cost value	-	150 103	-	150 103	150 103
Other financial assets	-	-	11 065	11 065	11 065
FINANCIAL LIABILITIES					
Due to banks	-	2	-	2	2
Due to customers	-	-	460 496	460 496	460 496
Financial liabilities at fair value through profit or loss	1 029	-	-	1 029	1 029
Debt securities issued by the Bank	-	-	177	177	177
Other borrowings	-	-	1 546	1 546	1 546
Other financial liabilities	-	-	5 513	5 513	5 513

Table 36.2. Fair value and layers of input data used for various techniques of assets and liabilities valuation for 2016

UAH, ths.	Fair value based on different valuation techniques			Total fair value	Total carrying value
	Level 1	Level 2	Level 3		
FINANCIAL ASSETS					
Cash and cash equivalents	3 721	54 521	-	58 242	58 242
Cash	3 721	-	-	3 721	3721
Balances in National Bank of Ukraine (excluding mandatory reserves)	-	4 551	-	4 551	4 551
Balances at correspondent accounts with Ukrainian banks	-	49 970	-	49 970	49 970

Financial assets at fair value through profit or loss	711	-	-	711	711
Loans and advances to customers	-	-	184 332	184 332	184 332
Securities held-to-maturity	-	62 044	-	62 044	62 044
Other financial assets	-	-	199	199	199
FINANCIAL LIABILITIES					
Due to banks	-	-	-	-	-
Due to customers	-	-	99 240	99 240	99 240
Financial liabilities at fair value through profit or loss	867	-	-	867	867
Debt securities issued by the Bank	-	-	10 952	10 952	10 952
Other borrowings	-	-	-	-	-
Other financial liabilities	-	-	822	822	822

Note 37. Financial assets by evaluation category

For the valuation purposes, IAS 39 – Financial Instruments: Recognition and Measurement sets out the following categories of financial assets: (a) loans and receivables; (b) available-for-sale financial assets; (c) held-to-maturity investments; and (d) financial assets at fair value through profit or loss. The financial assets at fair value through profit or loss are divided into two sub-categories: (i) assets included in this category at the initial recognition and (ii) assets recognized in the category and held for sale.

The table below sets out reconciliations of financial assets based on the evaluation categories as of 31 December 2017.

Table 37.1 Financial assets by evaluation category within the reporting period

UAH, ths.	**Loans and receivables**	**Investments held-to-maturity**	**Trade assets**	**Total**
Cash and cash equivalents	167 755	-	-	167 755
Financial assets held at fair value through profit or loss	-	-	1 085	1 085
Loans and advances to customers:	430 858	-	-	430 858
- loans to legal entities	428 049	-	-	428 049
- consumer loans to individuals	2 809	-	-	2 809
Securities held at amortized cost value	-	150 103	-	150 103
Other financial assets	11 065	-	-	11 065
Restricted use monetary funds	9 024	-	-	9 024
Other financial assets	2 041	-	-	2 041
Total financial assets	**609 678**	**150 103**	**1 085**	**760 866**

As of 31 December 2016, the Bank categorized all financial assets as loans and receivables, save for held-to-maturity investments.

As of 31 December 2017 and 31 December 2016, all of the Bank's financial liabilities, other than derivative financial instruments, were recorded at the amortized value. The derivative financial instruments are categorized as evaluated "at fair value through profit or loss."

Note 38. Related party transactions

Table 38.1. Balances of related party transactions as of 31 December 2017

UAH, ths.	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Due to customers (contractual interest rate 0 - 7,75%)	89	-	65 856
Loans and advances to customers (contractual interest rate 21 - 22 %)	-	818	2 459
Provision for impairment of loans as of 31 December	-	167	154

Table 38.2. Balances of related party transactions as of 31 December 2016

UAH, ths.	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Due to customers (contractual interest rate 0 %)	-	-	295
Due to customers (contractual interest rate 7 %)	10 953	-	-
Due to customers (contractual interest rate 7.75 %)	-	-	41 408

Table 38.3. Income and expenses on related party transactions for 2017 (Year To Date)

UAH, ths.	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Interest income	-	85	148
Interest expenses	302	7	4 045
Results of transactions with securities held in the Bank's trade portfolio	-	-	-
Fee and commissions income	32	13	36
Administrative and other operating expenses	-	13 691	43

Table 38.4. Income and expenses on related party transactions for 2016 (Year To Date)

UAH, ths.	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Interest expenses	1 712	-	281
Administrative and other operating expenses	99	6 348	27

Table 38.5. Total amount of loans issued to related parties and reimbursed by the related parties within 2017 (Year To Date)

UAH, ths.	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Amount of loans issued to related parties within the period	-	880	2 420
Amount of loans reimbursed by related parties within the period	-	121	-

As of December 31, 2016 there are no any loans issued to and reimbursed by related parties.

Table 38.6. Executive management remuneration

UAH, ths.	31.12.2017		31.12.2016	
	expenses	accrued liabilities	expenses	accrued liabilities
Current employee benefits (excluding layoff costs)	10 604	2 333	5 026	282
Layoff costs	122	-	-	-

Note 39. Subsequent Events

There have been no other events that might have influenced the Bank's financial statements for 2017 and would require separate disclosures between the balance sheet date and the date of these financial statements approval by the Management Board of the Bank.

Chairman of the Board N.V. Onyschenko

Chief Accountant N.A. Bochkovska