PJSC “BANK ALLIANCE”

Financial statements

for the year ended 31 December 2016

TRANSLATED FROM UKRAINIAN ORIGINAL

CONTENTS

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TRANSLATED FROM UKRAINIAN ORIGINAL

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of PJSC "BANK ALLIANCE"
To the National Bank of Ukraine

Report on financial statements

We have audited the accompanying financial statements of PUBLIC JOINT STOCK COMPANY "BANK ALLIANCE" (the Bank hereinafter), which comprise the Statement of Financial Position (Balance Sheet) as at 31 December 2016, the Statement of Comprehensive Income (Income Statement) for 2016, the Statement of Changes in Equity (Statement of Owner's Equity) for 2016 and the Statement of Cash Flows for 2016 (direct method), a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (2014 edition) adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No.320/1 dated 29 December 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

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Emphasis of Matter

Without changing our opinion, we draw your attention to Note 2 "Description of Economic Environment where the Bank Operates", which describes the current economic and political situation in Ukraine. The banking system of Ukraine is currently experiences the negative impact of armed conflict, political, economic and financial crisis, which is largely due to the deteriorating financial condition of borrowers, outflow of funds from banks, devaluation of the national currency and other objective reasons. At the moment, it is impossible to evaluate reliably the nature and extent of the impact on the Bank's operations.

We draw attention to Note 3 "Basis of Preparation", where the Bank's Management disclosed information regarding the assessment of going concern and in respect of the planned increase in the authorized capital of the Bank as required by the regulations of the National Bank of Ukraine. The Bank's ability to continue as a going concern largely depends on further implementation of the approved capitalization plan. Our opinion is not qualified in respect of this matter.

Other Matters

An auditor's report of another auditor dated 10 March 2016 on the Bank's financial statements as at 31 December 2015 contained a qualified opinion regarding the effect of uncertainty of assumptions for fair value measurement of collateral in a down economy on the amounts of recognized credit risk provisions and the Banks' insufficient attention to diversification and profitability of assets.

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 2016 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 2016. 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:

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 29/12/2014.

internal audit

During 2016, the Bank's internal regulations and internal audit procedures were improved and brought into line with the statutory requirements of the NBU, in particular, through compliance with the recommendations of the National Bank of Ukraine based on the results of the inspection visit.

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 05/10/2016 and require further implementation in terms of their practice application

definition of credit risk exposure on active banking operations

The Bank formed provisions for possible losses in respect of active banking operations in compliance with the statutory requirements of the NBU, including those concerning the regulation of banking operations and risk measurement on the formation and use of provisions for possible losses on active banking operations.

As stated in Table 9.2 "Analysis of movements in loan loss provisions for 2016" of Note 9 "Loans and advances to customers" of the Bank's financial statements, the volume of loan loss provisions for 2016 was decreased. In particular, at the beginning of 2016, the Bank's loan portfolio comprised the adversely classified receivables from the group of three interrelated borrowers - legal entities in the total amount of UAH 92 686 thousand, representing 97% of the loan portfolio of legal entities and individuals. As at 01/01/2016, the loan loss provisions for the total amount of UAH 8 392 thousand were formed in respect of the above borrowers. During 2016, as a result of a full repayment of loans (at the beginning of the year - UAH 62 667 thousand) on the part of two borrowers, the Bank was able to eliminate completely the above provisions (UAH 5 914 thousand at the beginning of the year).

As at the end of the reporting year, the Bank's loan portfolio comprised the receivables of only one of the above three borrowers in the amount of UAH 29 498 thousand. During 2016, the borrower did not violate the lending terms, paid interest on time and in full. In December 2016, an independent appraiser carried out the assessment of the borrower's mortgaged property (UAH 25 243 thousand), that allowed to consider this collateral in the calculation of provisions as at the end of the year and, therefore, to eliminate partially the insurance provisions (total elimination of loan loss provisions at the year-end amounted to UAH 1 991 thousand).

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 procedures for related party identification and transactions with the statutory requirements of the NBU. During our audit, we have found no violations of the statutory requirements in terms of related party transactions.

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

As at 31/12/2016, the Bank's share capital was sufficient and, according to the Bank's data, amounted to UAH 129 779 thousand (see Note 23 "Share Capital and Issue Profit/Loss (Share Premium)").

As at 31/12/2016, according to the Bank's data, the Bank's regulatory capital amounted to UAH 173 617 thousand and complied to the statutory requirements of the NBU (see Note 35 "Capital management").

As stated in Note 3 "Basis of Preparation", taking into account the requirements of the NBU regarding the gradual enhancement of banks' share capitals, the Bank approved the capital increase plan for 2017-2019, which provided for an enhancement of the Bank's share capital up to the level of UAH 200 million for a total amount of UAH 70.2 million, including UAH 32.4 million at the expense of a share of profits for 2016 and UAH 37.8 million at the expense of contributions from shareholders.

Profits earned by the Bank on the basis of performance for 2016 in the amount of UAH 50 036 thousand indicate the possibility of the share capital enhancement by means of its portion according to the capital increase plan in the amount of UAH 32 445 thousand. The Bank's management has received a written confirmation from an ultimate shareholder of the Bank, Mr. Alexander Sosis, regarding his intent on increasing the share capital in accordance with the approved capital increase plan in the amount of UAH 37 776 thousand, including at the Shareholder's own expense. According to the received information on the Bank's balances as at 01/01/2017, the line of deposit of Mr. Alexander Sosis amounted to USD 400 thousand, a cash balance in the deposit account opened with PJSC "CNCIF "UKRAINIAN WELL-BALANCED INVESTMENTS", where Mr. Alexander Sosis acts as an ultimate beneficial owner, amounted to USD 1 523 thousand, which in total exceeds the required capital enhancement amount of UAH 37 776 thousand.

adequacy of bank accounting

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

Managing Partner — Alexander Pochkun

Auditor — Gagik Nersesyan

The Certificate of Bank Auditor No.0171

issued by the Audit Chamber of Ukraine on 12/22/2011

23 January 2017

Kyiv, Ukraine

Registration No.17-001

Statement of Financial Position (Balance Sheet)

PJSC "BANK ALLIANCE"

as at 31 December 2016

(UAH, ths.)

Item	Notes	31.12.2016	31.12.2015
1	2	3	4
ASSETS			
Cash and cash equivalents	6	58 242	3 462
Financial assets at fair value through profit or loss	7	711	-
Due from banks	8	-	7 528
Loans and advances to customers	9	184 332	85 270
Securities held-to maturity	11	62 044	40 360
Current income tax receivable		-	325
Property, equipment and intangible assets	12	6 392	2 493
Other financial assets	13	199	-
Other assets	14	1 051	312
Non-current assets held-for-sale and disposal group assets	15	-	240
Total assets		**312 971**	**139 990**
LIABILITIES			
Due to customers	16	99 240	10 861
Financial liabilities at fair value through profit or loss	17	867	-
Debt securities issued by the Bank	18	10 952	-
Current income tax liabilities		9 263	-
Provisions for liabilities	19	2 933	-
Other financial liabilities	20	822	107
Other liabilities	21	1 116	171
Subordinated debt	22	-	56 109
Total liabilities		**125 193**	**67 248**
EQUITY			
Share capital	23	129 779	64 779
Retained earnings (losses)		35 208	(14 828)
Reserves and other funds		22 791	22 791
Total equity		**187 778**	**72 742**
Total liabilities and equity		**312 971**	**139 990**

Authorized for issue and signed

11 January 2017

Deputy Chairman of the Board — N. Onyschenko

Chief Accountant — N. Bochkovska

Employee in charge
G. Zadorozhna
(044)224-66-73

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

Statement of Comprehensive Income

(Income Statement)
PJSC «BANK ALLIANCE »
for 2016

(UAH, ths.)

Item	Notes	2016	2015
1	2	3	4
Interest income	26	27 418	30 267
Interest expenses	26	(3 790)	(4 956)
Net interest income/(Net interest expenses)	26	**23 628**	**25 311**
Net (increase) decrease in provisions for impairment of loans and advances to customers, due from banks		6 850	4 079
Net interest income/(Net interest expenses) after formation of provisions for impairment of loans and advances to customers, due from banks		**30 478**	**29 390**
Fee and commission income	27	3 971	473
Fee and commission expenses	27	(531)	(27)
Revaluation gain/loss on financial instruments at fair value through profit or loss	30	(2)	(16 323)
Net gain/(loss) from foreign currency transactions		55 311	(89)
Net gain/(loss) from foreign currency revaluation		3 040	643
Net (increase) decrease in provisions for impairment of receivables and other financial assets		(84)	(9)
Net (increase) decrease in provisions for impairment of securities available-for-sale		(1 901)	(23 581)
Net (increase) decrease in liability reserves	19	(2 933)	16
Other operating income	28	1 774	401
Administrative and other operating expenses	29	(26 838)	(8 660)
Profit/(loss) before tax		***62 285***	***(17 766)***
Income tax expenses	31	(12 249)	2 938
Profit/(loss) from continuous activity		50 036	(14 828)
Profit/(loss) for the year		**50 036**	**(14 828)**
OTHER COMPREHENSIVE INCOME:			
ITEMS TO BE RECLASSIFIED IN PROFIT OR LOSS			
Revaluation of securities available-for-sale		-	(701)
Income tax related to items of other comprehensive income to be reclassified in profit or loss		-	126
Other comprehensive income after tax for the year		-	(575)
Total comprehensive income for the year		**50 036**	**(15 403)**
Profit (loss) attributable to owners of the Bank		**50 036**	**(14 828)**
Total comprehensive income attributable to owners of the Bank		**50 036**	**(15 403)**
Earnings/(loss) per share from continuous activity (UAH):	32	4,92	(2,29)

1	2	3	4
Earnings/(loss) per share attributable to owners of the Bank (UAH):	32	4,92	(2,29)

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Employee in charge
G. Zadorozhna
(044)224-66-73

Chief Accountant N. Bochkovska

Statement of Changes in Equity (Statement of Owner's Equity)

PJSC «BANK ALLIANCE» for 2016

(UAH, ths.)

Item	Notes	Attributable to owners of the Bank						Total equity
		Share capital	Unregistered share capital	Reserves and other funds	Revaluation reserves	Retained earnings	Total	
1	2	3	4	5	6	7	8	9
Closing balance as at 31.12.14		**64 779**	**197 221**	**22 674**	**575**	**117**	**285 366**	**285 366**
Total comprehensive income:		-	-	-	*(575)*	*(14 828)*	*(15 403)*	*(15 403)*
profit/(loss) for the year		-	-	-	-	(14 828)	(14 828)	(14 828)
other comprehensive income	24	-	-	-	(575)	-	(575)	(575)
Profit allocations to reserves and other funds		-	-	117	-	(117)	-	-
Unregistered share capital	23	-	(197 221)	-	-	-	(197 221)	(197 221)
Closing balance as at 31.12.15		**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) for the year		-	-	-	-	50 036	50 036	50 036
other comprehensive income		-	-	-	-	-	-	-
Profit allocations to reserves and other funds		-	-	-	-	-	-	-
Closing balance as at 31.12.16		**129 779**	-	**22 791**	-	**35 208**	**187 778**	**187 778**

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11 January 2017

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Statement of Cash Flows
PJSC "BANK ALLIANCE"
for 2016

(direct method)

(UAH, ths.)

Item	Notes	2016	2015
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received	26	26 079	28 172
Interest paid	26	(4 149)	(12 755)
Fee and commission income	27	4 082	473
Fee and commission expenses	27	(531)	(27)
Operating result of transactions with financial instruments at fair value through profit or loss	30	-	-
Financial derivative instruments operating result		-	-
Gains from foreign exchange transactions		55 311	(89)
Other operating income received	28	1 774	121
Staff costs paid	29	(14 838)	(4 330)
Administrative and other operating expenses paid	29	(10 087)	(2 865)
Income tax paid	31	(2 661)	(585)
Net cash profit/(loss) from operating activities before changes in operating assets and liabilities		***54 980***	***8 115***
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the National Bank of Ukraine		-	-
Net (increase)/decrease in financial assets at fair value with revaluation result recognized in financial results	7	154	6 600
Net (increase)/decrease in due from banks	8	9 400	(9 400)
Net (increase)/decrease in loans and advances to customers	9	(94 244)	446 929
Net (increase)/decrease in other financial assets	13	-	(2)
Net (increase)/decrease in other assets	14	(876)	(61)
Net (increase)/decrease in due to banks		-	(11 250)
Net increase/(decrease) in due to customers	16	86 374	(236 540)
Net increase/(decrease) in debt securities issued by the Bank	18	10 300	-
Net increase/(decrease) in liability reserves	19	-	-
Net increase/(decrease) in other financial liabilities	20	(2)	-
Net cash flows from/(used in) operating activities		**66 086**	**204 391**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities available-for-sale		-	-
Acquisition of securities held-to-maturity	11	(22 000)	(40 000)
Acquisition of property and equipment	12	(2 521)	260
Proceeds from sale of property and equipment	12	-	(282)

1	2	3	4
Acquisition of intangible assets	12	(2 474)	(16)
Net cash flows from/(used in) investing activities		**(26 995)**	**(40 038)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares (unregistered capital)	23	65 000	(197 221)
Receipt of subordinated debt	22	(55 000)	-
Net cash flows from/(used in) financing activities		**10 000**	**(197 221)**
Effect of exchange rates fluctuations on cash and cash equivalents		5 689	(98)
Net increase/(decrease) in cash and cash equivalents		***54 780***	***(32 966)***
Cash and cash equivalents at the beginning of the year	6	3 462	36 428
Cash and cash equivalents at the end of the year	6	58 242	3 462

Authorized for issue and signed

11 January 2017

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

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, 04073, Kyiv, 8 Moskovsky Avenue, 16-A building.

Form of incorporation: Public Joint Stock Company.

PUBLIC JOINT STOCK COMPANY "BANK ALLIANCE" (hereinafter – "the Bank") is an independent financial institution that does not compose any consolidated group 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. During 2016, the Bank established two banking outlets (in Kyiv and Zaporizhzhya); 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 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.

During the second quarter of 2016, the Bank issued ordinary registered shares with the total nominal value of UAH 65 000 thousand.

As at 12/31/2016, the registered and fully paid share capital amounted to UAH 129 779 thousand and comprised of 12 977 890 ordinary registered shares with a nominal value of UAH 10 per share. The Bank’s management has a participatory interest in the amount of 639 190 ordinary registered shares, representing 4.9252% of the share capital of the Bank. Mr. Alexander Sosis, a citizen of Ukraine, owns 11 235 339 ordinary registered shares, representing 86.5729% of the share capital of the Bank.

The financial statements of the Bank for 2016 were authorized for issue on 11 January 2017 by the decision of the Management Board of PJSC “BANK ALLIANCE” (Minutes No. 3).

Note 2. Description of Economic Environment where the Bank Operates

During 2016, along with previous two 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) lack of stability in commodity prices in the global world market, loss of sales areas by domestic commodity producers; 2) continuing armed conflict in eastern Ukraine and annexation of Crimea followed by deepening crisis in Russian-Ukrainian relations; 3) complicated political situation in the country.

Ukraine’s economy is characterized by a significant influence and interference of state authorities in regulating the main directions of the country’s development. The state regulation of entrepreneurial activities, 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. The status of economic affairs of business environment significantly correlates with the political component of the situation in the country, resulting in a low level of development of foreign investments and a failure to implement the economy restructuring within a short time.

The declaring of information on the forecasted inflation rate at the end of 2016 at 12% on a year-on-year basis being the achievement of a well-balanced monetary policy ignores the fact that the decline in inflation rates is mainly caused not by structural changes in the economy, but by a decrease in capacity to meet their own needs by households and entities caused by a significant decline in the economy in 2014-2016, increased (actual) unemployment, capital outflows, devaluation of UAH in more than 3 times. The withdrawal from the market of a large number of banking institutions, including systemically significant ones, substantially reduced confidence in banks. Systemic changes in the approach to assess the credit risk of banking institutions and stress testing of banking institutions in terms of capital adequacy creates additional tension in the financial market both by banking institutions, and by other market participants and customers of banks, which results in a delay on surmounting the crisis as well.

In the current economic environment, the Bank's business model is focused on profit earning and growth of capitalization through a well-balanced policy on providing banking services to manufacturers, trading companies, ensuring international commercial transactions of the Bank's customers. The selected tendency of development is characterized by a high level of business mobility, a higher level of response to changing market conditions and a constant search for efficient solutions for implementing methods of monitoring the activities without compromising the quality of customer servicing.

Therefore, despite the fact that the management believes it is taking appropriate measures to support the sustainability of the Bank under the circumstances, the further instability of business environment may cause a negative impact on results of operations and financial position of the Bank, the nature and consequences of which are currently impossible to predict. These financial statements reflect the management's current assessment of the impact of business environment in Ukraine on operations and financial position of the Bank. The future business environment may differ from the management's assessment.

Note 3. Basis of Preparation

The Bank's financial statements for 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The annual report for 2016 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 2016, 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 2017-2019, which provided for an enhancement of the Bank's share capital up to the level of UAH 200 million for a total amount of UAH 70.2 million, including UAH 32.4 million at the expense of a share of profits for 2016 and UAH 37.8 million at the expense of contributions from shareholders.

The Bank's management has received a written confirmation from an ultimate shareholder, Mr. Alexander Sosis, regarding his intent on increasing the share capital in accordance with the approved capital increase plan, including at the Shareholder's own expense.

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 not a member of any consolidated group, does not have any subsidiary or associated company and, therefore, does not prepare consolidated financial statements.

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 can not 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 2015 and 2016 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 as at the end of 2016 in the amount of UAH 1 731 thousand, as at the end of 2015 – in the amount of UAH 55 thousand.

Note 4.9 Due from banks

As at the end of 2015, due from banks comprised short-term loans in the interbank market of Ukraine, according to which the Bank recognized 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 can not 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 can not 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 can not 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 can not 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.

During 2016, the Bank's trading portfolio comprised discounted registered bonds (A series) of LLC "NAVIUM" in the amount of 2 486 188 with the nominal value of UAH 11.00 per a bond, for which the Bank recognized an impairment of 100% of the cost.

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 2016 and 2015, 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 2016 and 2015, 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 2016 and 2015, 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

During the reporting and previous years, the Bank did not enter into finance 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.

As at the end of 2015, the Bank classified non-current assets (property and equipment) held-for-sale in the amount of UAH 240 thousand to "Non-current assets held-for-sale and disposal group assets" in the Statement of Financial Position (Balance Sheet). Given the impossibility to sell these assets within a year, in 2016 the Bank reclassified the assets to the total amount of UAH 240 thousand from this category to Property and Equipment.

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 can 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. During 2016 and 2015, the Bank did not enter into contracts based on embedded derivatives.

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. During 2016 and 2015, the Bank carried out transactions to attract customer funds exclusively at market rates.

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

During 2016, the Bank issued debt securities - deposit certificates in the amount of USD 400 thousand. Zero-coupon interest deposit certificates were issued with maturities from 91 to 183 days and interest paid at redemption of deposit certificates.

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.

At the end of 2012, the Bank attracted funds in the amount of UAH 55 million from a legal entity - a resident of Ukraine on the terms of a subordinated debt at a rate that corresponds to market rates for similar financial instruments.

are subsequently measured at amortized cost.

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

In 2016, funds raised under a subordinated debt were early repaid (with the permission of the NBU) in the amount of UAH 55 million.

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. With this in mind, in 2016, the Bank for objective reasons did not recognize deferred tax assets in the amount of UAH 1038 thousand.

During 2016, 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

In the second quarter of 2016, the Bank issued registered ordinary shares with the total nominal value of UAH 65 000 thousand. At the end of 2016, the registered and fully paid share capital amounted to UAH 129 779 thousand, which consists of 12 977 890 ordinary registered shares with a nominal value of UAH 10 per each.

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 can not 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 2016, 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 standards and interpretations issued, but not yet effective, up to the date of issuance of the Bank’s financial statements are disclosed below. The Bank intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

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.

The Bank plans to adopt the new standard when it becomes effective. In 2017, the Bank plans to make an overall assessment of the impact of all three parts of IFRS 9. This preliminary assessment will based on a more detailed analysis or further substantiated and confirmed information that will be available for the Bank in the future.

(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.

IFRS 15 Revenue from Contracts with Customers

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, 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. In addition, the Bank takes into account amendments issued by the IASB in April 2016 and will monitor changes in the future.

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. During 2017, the Bank plans to develop and implement appropriate testing systems, internal controls, policies and processes necessary for the collection and disclosure of relevant information.

Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and its Associate/Joint Venture

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 16 Leases

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.

Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiative

The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity’s financing activities. They are effective for annual reporting periods beginning on or after 1 January 2017, with earlier application being permitted. The Bank is currently assessing the impact of application of these standards on future financial statements of the Bank.

Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses

Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses clarify the following:

- Unrealized loss on a debt instrument measured at fair value gives rise to a deductible temporary difference when the holder expects to recover the carrying amount of the asset by holding it to maturity and collecting all the contractual cash flows.
- The carrying amount of an asset does not limit the estimates of the expectable future taxable income.
- The estimates of future taxable income do not account for tax liabilities as a result of the reversal of temporary tax differences.

- An entity measures a deferred tax asset in combination with other deferred tax assets. Where the tax law restricts the use of tax losses, an entity will assess the deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual reporting periods beginning on or after 1 January. The Bank is currently assessing the impact of application of these amendments on future financial statements of the Bank.

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

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.

Note 6. Cash and Cash Equivalents

Table 6.1. Cash and cash equivalents

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Cash on hand	3 721	310
2	Balances with the National Bank of Ukraine (excluding mandatory reserves)	4 551	3 005
3	Correspondent accounts with Ukrainian banks	49 970	147
4	***Total cash and cash equivalents***	***58 242***	***3 462***

As at the end of 2016 and 2015, Cash and cash equivalents comprised cash on hand and funds in correspondent accounts with the banks of Ukraine (including the correspondent account with the National Bank of Ukraine) subject to low credit risk.

During 2016 and 2015, 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 Notes 25, 34, 38.

Note 7. Financial Assets at Fair Value Through Profit or Loss

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

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Assets (amounts of positive revaluation) under forward contracts held-for-trading	711	-
2	***Total financial assets at fair value through profit or loss***	**711**	**-**

As at the end of 2016 and 2015, 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), the Statement of Cash Flows and in Notes 25, 34, 38.

Note 8. Due from Banks

Table 8.1. Due from banks

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Short-term loans to other banks	-	9 410
2	Provision for impairment of due from banks	-	(1 882)
3	***Total due from banks, net of impairment provisions***	***-***	***7 528***

Table 8.2. Analysis of credit quality - due from banks for 2015

(UAH, ths.)

Line	Item	Loans	Total
1	2	3	4
1	Impaired funds estimated on individual basis before deducting provisions	9 410	9 410
2	Provision for impairment of due from banks	(1 882)	(1 882)
3	***Total due from banks, net of provisions***	***7 528***	***7 528***

Table 8.3. Analysis of movements in provision for impairment of due from banks

(UAH, ths.)

Line	Movements in provisions	31.12.2016	31.12.2015
1	2	3	4
1	Provision for impairment as at the beginning of the period	(1 882)	-
2	(Increase)/decrease in impairment provision during the year [1]	1 882	(1 882)
3	Provision for impairment as at the end of the period	-	(1 882)

The data of Note 8 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Notes 25, 34, 38.

Note 9. Loans and Advances to Customers

Table 9.1. Loans and advances to customers

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Loans to legal entities	190 742	96 365
2	Consumer loans to individuals	154	227
3	Provision for loan impairment	(6 564)	(11 322)
4	***Total loans to customers less provisions***	**184 332**	***85 270***

The data of Note 9 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Notes 25, 34, 38.

Table 9.2. Analysis of movements in loan loss provisions for 2016

(UAH, ths.)

Line	Movements in provisions	Loans to legal entities	Consumer loans	Total
1	2	3	4	5
1	Balance as at 31 December 2015	(11 263)	(59)	(11 322)
2	(Increase)/decrease of impairment provision during the year	5 068	54	5 122
3	Bad debt written-off against provision	0	0	0
4	Effect of translation in presentation currency	(364)	0	(364)
5	Balance as at 31 December 2016	(6 559)	(5)	(6 564)

The amount of loan loss provisions for 2016 decreased subsequent to the Bank’s weighted credit policy, high-quality selection of borrowers resulted in significantly improved quality of the loan portfolio.

As at the beginning of 2016, the Bank had an adversely classified receivables from the group of 3 interrelated borrowers - legal entities in the total amount of UAH 92 686 thousand, representing 97% of the loan portfolio of legal entities and individuals. As at 01/01/2016, loan loss provisions for the total amount of UAH 8 392 thousand were formed in respect of the above borrowers.

During the 1st half of 2016, as a result of the Bank’s actions intended on improving the loan portfolio quality, two borrowers of the aforementioned group repaid a loan in full (at the beginning of the year - UAH 62 667 thousand), that allowed the Bank to eliminate completely the above provisions (in the amount of UAH 5 914 thousand at the beginning of the year).

At the end of the reporting year, the Bank’s loan portfolio comprised the receivables of one of the above three borrowers in the amount of UAH 29 498 thousand. The ratio of the borrower’s financial position - 5, debt service quality - high. During 2016, the borrower did not violate the lending terms, interest was paid on time and in full. In December 2016, an independent appraiser carried out the assessment of the borrower’s mortgaged property (UAH 25 243 thousand), that allowed to consider this collateral in the calculation of provisions as at the end of the year and therefore to eliminate partially the insurance provisions (total elimination of provisions at the year-end amounted to UAH 1991 thousand).

The Bank takes steps on a continuous basis to improve the quality of the loan portfolio, in particular, by means of the establishment of more stringent and conservative approaches to potential borrowers and collaterals in credit operations. In 2016, loans were granted solely under high-liquid collateral with high level of risk coverage, which reduces the burden on capital. As a result, the amount of additional provisions for other (excluding the aforementioned) loans for the year amounted to only UAH 2 783 thousand, while credit exposure almost doubled in the same period.

Table 9.3. Analysis of movements in loan loss provisions for 2015

(UAH, ths.)

Line	Movements in provisions	Loans to legal entities	Consumer loans	Total
1	2	3	4	5
1	Balance as at 31 December 2014	(32 033)	(116)	(32 149)
2	(Increase)/decrease of impairment provision during the year	5 115	57	5 172
3	Bad debt written-off against provision	16 516	0	16 516
4	Effect of translation in presentation currency	(861)	0	(861)
5	Balance as at 31 December 2015	(11 263)	(59)	(11 322)

Table 9.4. Loan structure by types of economic activity

(UAH, ths.)

Line	Economic activity	31.12.2016		31.12.2015	
		amount	%	amount	%
1	2	3	4	5	6
1	Information technologies and computer systems	-	-	29 925	31%
2	Construction	29 489	15%	30 020	31%
3	Trading; maintenance of vehicles, household goods and items of personal use	-	-	32 741	34%
4	Retail trading, except of motor vehicles trading	40 153	21%	-	-
5	Wholesale trading, except of motor vehicles and motorcycles trading	1 309	1%	-	-
6	Warehousing facilities	35 558	19%	-	-
7	Wholesale and retail trading with motor vehicles and motorcycles; repairs	17 317	9%	-	-
8	Activities of central administrations (head-offices), advising on management	28 571	15%	-	-
9	Chemicals and chemical product manufacturing	3 106	2%	2 742	3%
10	Insurance, reinsurance and non-state pension provision	34 291	18%	-	-

1	2	3	4	5	6
11	Individuals	154	0%	227	0%
12	Other	948	0%	937	1%
13	***Total loans and customers’ debts, net of provisions***	***190 896***	***100%***	***96 592***	***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). One third of the Bank’s loan portfolio is concentrated on borrowers engaged in a general-purpose wholesale, almost two-thirds - on borrowers whose main activities lie in other (not listed) businesses (electrical installation works, plastics industry, information technologies, etc.), less than one percent falls to consumer loans.

Table 9.5. Loans by types of collateral for 2016

(UAH, ths.)

Line	**Item**	**Loans to legal entities**	**Consumer loans**	**Total**
1	2	3	4	5
1	Loans secured by	190 742	154	190 896
1.1	Real estate	145 546	154	145 700
1.1.1	incl. residential property	0	0	0
1.2	other assets	45 196	0	45 196
2	***Total loans and advances to customers, net of provisions***	***190 742***	***154***	***190 896***

Table 9.6. Loans by types of collateral for 2015

(UAH, ths.)

Line	**Item**	**Loans to legal entities**	**Consumer loans**	**Total**
1	2	3	4	5
1	Loans secured by	96 365	227	96 592
1.1	Real estate	92 687	223	92 910
1.1.1	incl. residential property	0	18	18
1.2	other assets	3 678	4	3 682
2	***Total loans and advances to customers, net of provisions***	***96 365***	***227***	***96 592***

Table 9.7. Analysis of credit quality for 2016

(UAH, ths.)

Line	Item	Loans to legal entities	Consumer loans	Total
1	2	3	4	5
1	Impaired loans estimated on individual basis	190 742	154	190 896
1.1	non-impaired loans	187 636	154	187 790
1.2	overdue over 366 (367) days	3 106	-	3 106
2	Total loan amount before deducting provisions	190 742	154	190 896
3	Provisions for loan impairment	(6 559)	(5)	(6 564)
4	***Total loans less provisions***	***184 183***	***149***	***184 332***

Table 9.8. Analysis of credit quality for 2015

(UAH, ths.)

Line	Item	Loans to legal entities	Consumer loans	Total
1	2	3	4	5
1	Impaired loans estimated on individual basis	96 365	227	96 592
1.1	non-impaired loans	92 220	227	92 447
1.2	overdue from 32 to 92 days	1 403	-	1 403
1.3	overdue over 366 (367) days	2 742	-	2 742
2	Total loan amount before deducting provisions	96 365	227	96 592
3	Provisions for loan impairment	(11 263)	(59)	(11 322)
4	***Total loans less provisions***	***85 102***	***168***	***85 270***

Table 9.9. Effect of collateral value on credit quality as at 12/31/2016

(UAH, ths.)

Line	Item	Carrying amount	Collateral value	Expected cash flows from sale of collateral	Collateral effect
1	2	3	4	5	6 = 3 - 5
1	Loans to legal entities	190 742	266 818	165 185	25 557
2	Consumer loans to individuals	154	3 504	154	-
3	***Total loans***	***190 896***	***270 322***	***165 339***	***25 557***

Table 9.10. Effect of collateral value on credit quality as at 12/31/2015

(UAH, ths.)

Line	Item	Carrying amount	Expected cash flows from sale of collateral	Collateral effect
1	2	3	4	5 = 3 - 4
1	Loans to legal entities	96 365	84 637	11 728
2	Consumer loans to individuals	227	0	227
3	***Total loans***	***96 592***	***84 637***	***11 955***

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 transfers the amounts of the expected sale of collateral to future cash flows from the loan secured by a collateral on the date it commences to form a provision for this loan.

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 10. Securities Available-for-sale

Table 10.1. Securities available-for-sale

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Debt securities – corporate bonds	25 482	23 581
2	Provisions for impairment of securities available-for-sale	(25 482)	(23 581)
3	***Total securities available-for sale net of provisions***	**-**	**-**

Table 10.2. Analysis of credit quality of debt securities (corporate bonds) available-for-sale

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Neither impaired nor overdue	-	-
1.1	small businesses	-	-
2	Impaired debt securities estimated on individual basis	25 482	23 581
3	Provision for impairment of securities available-for-sale	(25 482)	(23 581)
4	***Total debt securities available-for-sale, net of impairment provisions***	**-**	**-**

During 2016 and 2015, 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. During 2015, the Bank recognized an 100%impairment for these securities.

Note 11. Securities Held-to-maturity

Table 11.1. Securities held-to-maturity

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Deposit certificates issued by the NBU	62 044	40 359
2	Provisions for impairment of securities held-to-maturity	-	-
3	***Total securities held-to-maturity, net of provisions***	***62 044***	***40 359***

At the end of 2016 and 2015, 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 11 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Notes 25, 34, 38.

Note 12. Property, Equipment and Intangible Assets

(UAH, ths.)

Line	Item	Machinery and equipment	Vehicles	Tools, fixtures and fittings (furniture)	Other items of property and equipment	Other non-current tangible assets	In-progress capital investment in property and equipment	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10
1	Carrying amount at the beginning of the previous period	634	136	55	467	2 711	-	254	4 257
1.1	historical (revalued) cost	1 737	400	303	788	5 091	-	2 230	10 549
1.2	depreciation/ amortisation at the beginning of the previous period	(1 103)	(264)	(248)	(321)	(2 380)	-	(1 976)	(6 292)
2	Additions	84	-	-	-	9	-	16	109
3	Transfers to non-current assets available-for-sale and disposal group assets	(10)	-	-	(230)	-	-	-	(240)
4	Disposals	(263)	-	(5)	(87)	-	-	-	(355)
5	Depreciation/amortisation charges	(230)	(39)	(25)	(95)	(660)	-	(229)	(1 278)
6	Carrying amount at the end of the previous period (at the beginning of the reporting period)	215	97	25	55	2 060	-	41	2 493
6.1	historical (revalued) cost	1 462	400	294	388	5 088	-	2 089	9 721
6.2	depreciation/ amortisation at the end of the previous period (at the beginning of the reporting period)	(1 247)	(303)	(269)	(333)	(3 028)	-	(2 048)	(7 228)
7	Additions	1 348	449	139	153	439	3 799	2 422	8 749
8	Transfers from non-current assets available-for-sale and disposal group assets	36	-	-	204	-	-	-	240
9	Disposals	-	-	-	-	-	(3 701)	-	(3 701)
10	Depreciation/amortisation charges	(315)	(68)	(28)	(41)	(874)	-	(63)	(1 389)
11	Carrying amount at the end of the reporting period	1 284	478	136	371	1 625	98	2 400	6 392
11.1	historical (revalued) cost	2 778	849	230	775	5 498	98	4 511	14 739
11.2	depreciation/ amortisation at the end of the reporting period	(1 494)	(371)	(94)	(404)	(3 873)	-	(2 111)	(8 347)

The Bank does not have property and equipment with the restrictions regarding to their possession, utilization and disposal. Property, equipment and intangible assets pledged as collateral are absent. Intangible assets with the restrictions regarding property rights are absent.

In the reporting period, intangible assets have not been generated by the Bank. During the reporting period, property, equipment and intangible assets were not revalued by the Bank. The initial value of fully depreciated assets of property and equipment amounted to UAH 1 850 thousand.

The data of Note 12 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Note 25.

Note 13. Other Financial Assets

Table 13.1. Other Financial Assets

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Income from cash management services, accrued but not received	3	2
2	Accounts receivable on transactions with other banks	1	2
3	Fees for support of guarantees granted to customers, accrued but not received	198	-
4	Provision for impairment of other financial assets	(3)	(4)
5	***Total other financial assets, net of impairment provisions***	***199***	***-***

During 2016 and 2015, the Bank did not enter into finance lease contracts, where the Bank acted as a lessor.

The data of Note 13 are disclosed in the Statement of Financial Position (Balance Sheet) and in Notes 25, 34, 38.

Table 13.2. Analysis of movements in provision for impairment of other financial assets

(UAH, ths.)

Line	Movements in provisions	Income from cash management services, accrued	Accounts receivable on transactions with other banks	Fees for guarantees granted, accrued	Total
1	2	3	4	5	6
1	***Balance as at 31 December 2014***	(2)	-	-	(2)
2	(Increase)/decrease of impairment provision during the period	-	(2)	-	(2)
3	***Balance as at 31 December 2015***	(2)	(2)	-	(4)
4	(Increase)/decrease of impairment provision during the period	-	-	-	-
5	Bad debts written-off	-	1	-	1
6	***Balance as at 31 December 2016***	(2)	(1)	-	(3)

Table 13.3. Analysis of credit quality of other financial assets for 2016

(UAH, ths.)

Line	Item	Income from cash management services, accrued	Accounts receivable on transactions with other banks	Fees for guarantees granted, accrued	Total
1	2	3	4	5	6
1	Neither overdue, nor impaired	1	-	198	199
2	Overdue receivables estimated on individual basis	2	1	-	3
2.1	from 184 to 365 (366) days	1	-	-	1
2.2	over 366 (367) days	1	1	-	2
3	Total other financial assets, net of provision	3	1	198	202
4	Provision for impairment of other financial assets	(2)	(1)	-	(3)
5	Total other financial assets, net of provision	1	-	198	199

Table 13.4. Analysis of credit quality of other financial assets for 2015

(UAH, ths.)

Line	Item	Income from cash management services, accrued	Accounts receivable on transactions with other banks	Fees for guarantees granted, accrued	Total
1	2	3	4	5	6
1	Overdue receivables estimated on individual basis	2	2	-	4
1.1	from 184 to 365 (366) days	1	2	-	3
1.2	over 366 (367) days	1	-	-	1
2	Total other financial assets, net of provision	2	2	-	4
3	Provision for impairment of other financial assets	(2)	(2)	-	(4)
4	Total other financial assets, net of provision	-	-	-	-

Note 14. Other Assets

Table 14.1. Other assets

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Accounts receivable on assets purchase transactions	119	146
2	Prepaid services	492	110
3	Deferred expenses	510	69
4	Other assets	28	1
5	Provision for other assets	(98)	(14)
6	***Total other assets, net of provisions***	***1 051***	***312***

The date of Note 14 are disclosed in the Statement of Financial Position and in Note 25.

Table 14.2. Analysis of movements in provision for impairment of other assets

(UAH, ths.)

Line	Movements in provisions	Accounts receivable on assets purchase transactions	Prepaid services	Other assets
1	2	3	4	5
1	***Balance as at 31 December 2014***	**-**	***(8)***	**-**
2	(Increase)/ decrease in impairment provision during the period	-	(6)	-
3	***Balance as at 31 December 2015***	**-**	***(14)***	**-**
4	(Increase)/ decrease in impairment provision during the period	**-**	(84)	-
5	***Balance as at 31 December 2016***	**-**	***(98)***	**-**

Note 15. Non-current Assets Held-for-sale and Disposal Group Assets

At the end of 2015, the Bank transferred non-current assets (property and equipment) held-for-sale in the total amount of UAH 240 thousand to non-current assets held-for-sale and disposal group assets in the Statement of Financial Position (Balance Sheet). Given the impossibility to sell these assets during a year, in 2016 the Bank reclassified assets from this category to Property and equipment in the total amount of UAH 240 thousand.

Note 16. Due to Customers

Table 16.1. Due to customers

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Legal entities	98 751	3 343
1.1	current accounts	13 415	3 343
1.2	term deposits	85 336	-
2	Individuals	489	7 518
2.1	current accounts	23	7 518
2.2	term deposits	466	-
3	***Total amounts due to customers***	***99 240***	***10 861***

The data of Note 16 are disclosed in the Statement of Financial Position (Balance Sheet), in Notes 25, 34, 38.

Table 16.2. Amounts due to customers by types of economic activity

(UAH, ths.)

Line	Type of economic activity	31.12.2016		31.12.2015	
		Amount	**%**	**Amount**	**%**
1	2	3	4	5	6
1	Financial services, except for insurance and pension provision	51 730	52%	-	-
2	Trading, repairs of motor vehicles, household goods and personal consumption goods	40 541	41%	238	2%
3	Travel agencies	3 018	3%	-	-
4	Waste collection and processing	1 400	1%		
5	Construction	895	1%	654	6%
6	Warehousing facilities and transportation activities	612	1%	-	-
7	Real estate, leasing, engineering and service provision	253	-	55	1%
8	Insurance	112	-	19	-
9	Food Production	-	-	2 228	21%
10	Individuals	489	1%	7 518	69%
11	Other	190	-	149	1%
12	***Total due to customers***	***99 240***	***100%***	***10 861***	***100%***

As at the end of 2015, Due to customers in the Statement of Financial Position (Balance Sheet) did not comprise the attracted funds collateralized for credit operations, irrevocable commitments under import letters of credit, guarantees, sureties. As a part of this item, as at the end of 2016, Due to customers collateralized for credit operations and guarantees amounted to UAH 38 900 thousand.

Note 17. Financial Liabilities at Fair Value through Profit or Loss

Table 17.1. Financial liabilities at fair value through profit or loss

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Liabilities (negative revaluation result) for forward contracts held-for-trading	867	-
2	***Total financial liabilities at fair value through profit or loss***	***867***	***-***

The data of Note 17 are disclosed in the Statement of Financial Position (Balance Sheet), in Notes 25, 34, 38.

Note 18. Debt Securities Issued

Table 18.1. Debt securities issued

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Zero-coupon interest deposit certificates with maturities from 93 to 183 days	10 952	-
2	***Total***	***10 952***	***-***

As at the end of 2016, assets provided as a collateral for securities issued by the Bank were absent. During 2016 and 2015, the Bank did not issue convertible debt instruments (those including liability and equity components).

The data of Note 18 are disclosed in the Statement of Financial Position (Balance Sheet) in Notes 25, 34, 38.

Note 19. Provisions for Liabilities

Table 19.1. Provisions for Liabilities

(UAH, ths.)

Line	Movements in provisions	Provisions for lending commitments	
		2016	**2015**
1	2	3	3
1	Opening balance	-	16
2	Formation and/or (reduction) of provision	2 933	(16)
3	**Closing balance**	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 2016, a provision in the amount of UAH 2 933 thousand is formed as a collateral for guarantees. The data of Note 19 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Notes 25, 34, 38.

Note 20. Other Financial Liabilities

Table 20.1. Other financial liabilities

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Payables to customers in closed accounts	78	79
2	Accounts payable on transactions with foreign currency	741	
3	Other accounts payable for transactions with customers	3	3
4	Accrued expenses on economic activities	-	25
5	***Total other financial liabilities***	***822***	***107***

The data of Note 20 are disclosed in the Statement of Financial Position (Balance Sheet) in Notes 25, 34, 38.

Note 21. Other Liabilities

Table 21.1. Other liabilities

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Vacation allowance	700	167
2	Deferred income	86	-
3	Payables for taxes and mandatory charges	19	3
4	Fees and commissions for guarantees provided	311	-
5	Other payables	**-**	***1***
6	***Total other liabilities***	***1 116***	***171***

The data of Note 21 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 25.

Note 22. Subordinated Debt

In 2016, funds raised under a subordinated debt were early repaid (with the permission of the NBU) in the amount of UAH 55 million.

The data of Note 22 are disclosed in the Statement of Financial Position (Balance Sheet) in Notes 25, 34, 38.

Note 23. Share Capital and Issue Profit/Loss (Share Premium)

Table 23.1. Share capital and issue profit/loss (share premium)

(UAH, ths.)

Line	Item	Number of shares in circulation (thousand, psc.)	Ordinary shares	Total
1	2	3	4	5
1	***Opening balance as at 01/01/2015***	***26 200***	***262 000***	***262 000***
2	Issue of new shares (equity interests)	(19 722)	(197 221)	(197 221)
3	Treasury shares (stocks) repurchased from shareholders (participants)	-	-	-
4	Sale of previously repurchased treasury shares (stocks)	-	-	-
5	Cancelled previously repurchased treasury shares	-	-	-
6	***Closing balance as at 12/31/2015***	***6 478***	***64 779***	***64 779***
7	Contributions on new issued shares (unit shares, stocks)	6 500	65 000	65 000
8	Treasury shares (stocks) repurchased from shareholders (participants)	-	-	-
9	Sale of previously repurchased treasury shares (stocks)	-	-	-
10	Cancelled previously repurchased treasury shares	-	-	-
11	***Closing balance as at 12/31/2016***	***12 978***	***129 779***	***129 779***

At the end of 2016, the Bank’s registered and fully paid share capital amounted to UAH 129 779 thousand, which consists of 12 977 890 ordinary registered shares with a nominal value of UAH 10 per each. In the second quarter of 2016, the Bank issued registered ordinary shares with the total nominal value of UAH 65 000 thousand. During 2016, 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 23 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows, the Statement of Changes in Equity (Statement of Owner’s Equity).

Note 24. Revaluation Reserves (Components of Other Comprehensive Income)

Table 24.1. Revaluation reserves (components of other comprehensive income)

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	4	5
1	***Opening balance***	***-***	***575***
2	Movements in revaluation of securities held-for-sale to fair value	-	(701)
3	Income tax related to movements in revaluation reserve of securities available-for-sale	-	126
4	Total movements in revaluation reserves (other comprehensive income), less income tax	-	(575)
5	***Closing balance***	***-***	***-***

The data of Note 24 are disclosed in the Statement of Financial Position (Balance Sheet) and the Statement of Changes in Equity (Statement of Owner's Equity).

Note 25. Analysis of Assets and Liabilities by Maturities

Table 25.1. Analysis of assets and liabilities by maturities

(UAH, ths.)

Line	Item	Notes	31.12.2016			31.12.2015		
			Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
1	2	3	4	5	6	7	8	9
	ASSETS							
1	Cash and cash equivalents	6	58 242	-	58 242	3 462	-	3 462
2	Financial assets at fair value through profit or loss	7	711	-	711	-	-	-
3	Due from other banks	8	-	-	-	7 528	-	7 528
4	Loans and advances to customers	9	119 608	64 724	184 332	2 494	82 776	85 270
5	Securities held-to-maturity	11	62 044	-	62 044	40 360	-	40 360
6	Current income tax receivable		-	-	-	325	-	325
7	Property, plant and intangible assets	12	-	6 392	6 392	-	2 493	2 493
8	Other financial assets	13	199	-	199	-	-	-
9	Other assets	14	1 051	-	1 051	312	-	312
10	Non-current assets available-for-sale	15	-	-	-	240	-	240
11	**Total assets**		**241 855**	**71 116**	**312 971**	**54 721**	**85 269**	**139 990**
	LIABILITIES							
12	Due to customers	16	96 222	3 018	99 240	10 861	-	10 861
13	Financial liabilities at fair value through profit or loss	17	867	-	867	-	-	-
14	Debt securities issued	18	10 952	-	10 952	-	-	-
15	Current income tax payable		9 263	-	9 263	-	-	-
17	Provisions for liabilities	19	2 933	-	2 933	-	-	-
18	Other financial liabilities	20	822	-	822	107	-	107
19	Other liabilities	21	416	700	1 116	171	-	171
20	Subordinated debt	22	-	-	-	1 109	55 000	56 109
21	Total liabilities		121 475	3 718	125 193	12 248	55 000	67 248

The data of Note 25 are disclosed in the Statement of Financial Position (Balance Sheet) and in Notes 34, 38.

Note 26. Interest Income and Expenses

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
INTEREST INCOME:			
1	Loans and advances to customers	20 815	27 632
2	Debt securities available-for-sale	1 901	1 906
3	Due from other banks	1 111	39
4	Correspondent accounts with other banks	139	5
5	Securities held-to-maturity	3 452	685
6	***Total interest income***	***27 418***	***30 267***
INTEREST EXPENSES:			
7	Term deposits of legal entities	(1 307)	(320)
8	Term deposits of individuals	(2)	(17)
9	Term deposits of other banks	(1)	(219)
10	Current accounts	(754)	-
11	Debt securities issued	(91)	-
12	Subordinated debt	(1 635)	(4 400)
13	***Total interest expenses***	***(3 790)***	***(4 956)***
14	***Net interest income/(expenses)***	***23 628***	***25 311***

The data of Note 26 are disclosed in the Statement of Comprehensive Income (Income Statement) and in Note 33.

Note 27. Commission Income and Expenses

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
COMMISSION INCOME:			
1	Cash and settlements operations	707	281
2	Crediting	2	83
3	Guarantees issued	530	10
4	Currency market trading for customers	2 731	97
5	Other	1	2
6	***Total commission income***	***3 971***	***473***
COMMISSION EXPENSES:			
7	Cash and settlements operations	(531)	(27)
8	Other	-	-
9	***Total commission expenses***	***(531)***	***(27)***
10	***Net commission income/expenses***	***3 440***	***446***

The data of Note 27 are disclosed in the Statement of Comprehensive Income (Income Statement) and in Note 33.

Note 28. Other Operating Income

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Income from safe deposit box rental	-	94
2	Operating income from assignment of claims under loan agreements with liabilities previously written-off against provision	1 763	-
3	Income from early termination of term deposits	-	280
4	Other	11	27
5	***Total other operating income***	***1 774***	***401***

The data of Note 28 are disclosed in the Statement of Comprehensive Income (Income Statement) and in Note 33.

Note 29. Administrative and Other Operating Expenses

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Personnel expenses	(15 370)	(4 385)
2	Depreciation of property and equipment	(1 326)	(1 051)
3	Amortization of software and other intangible assets	(63)	(229)
4	Expenses for maintenance of property, equipment and intangible assets, telecommunication and other operating services	(3 967)	(1 061)
5	Operating lease expenses	(3 895)	(451)
6	Other expenses attributable to property and equipment	-	(282)
7	Professional services (notary, audit services)	(804)	(226)
8	Marketing and advertising expenses	(35)	-
9	Insurance expenses	(36)	(17)
10	Taxes and duties, other than income tax	(386)	(105)
11	Other	(956)	(853)
12	***Total administrative and other operating expenses***	***(26 838)***	***(8 660)***

The data of Note 29 are disclosed in the Statement of Comprehensive Income (Income Statement) and in Note 33.

Note 30. Result of Transactions with Financial Assets at Fair Value through Profit or Loss

Table 30.1. Result of transactions with financial assets at fair value through profit or loss

(UAH, ths.)

Line	Item	2016	2015
1	2	3	4
1	Corporate bonds	-	(16 323)
2	Result of trading transactions with other financial instruments	(2)	-
3	***Total result of transactions with financial assets at fair value through profit or loss***	***(2)***	***(16 323)***

The data of Note 30 are disclosed in the Statement of Comprehensive Income (Income Statement) and in Note 33.

Note 31. Income Tax Expense

Table 31.1. Income tax expense

(UAH, ths.)

Line	Item	2016	2015
1	2	3	4
1	Current income tax	12 249	-
2	Change in the deferred income tax attributable to:	-	(2 938)
3	Total income tax expense	12 249	(2 938)

The data of Note 31 are disclosed in the Statement of Comprehensive Income (Income Statement).

Table 31.2. Reconciliation of accounting profit (loss) and taxable profit (loss)

(UAH, ths.)

Line	Item	2016	2015
1	2	3	4
1	Profit before tax	62 285	(17 766)
2	Theoretical tax deductions at applicable tax rate	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	7 636	-
3.1.	Differences that arise during accrual of depreciation of non-current assets and increase financial result	1 389	1279
3.2.	Differences that arise in formation of provisions and increase financial result	6 196	-

1	2	3	4
3.3.	Differences that arise from payment of membership fees and increase financial result	51	-
4	Expenses included in the amount of expenses aiming at taxable income calculation, but not recognized in the accounting records (differences that arise during accrual of depreciation of non-current assets and reduce financial result)	(1 873)	-
4.1	Differences that arise during accrual of depreciation of non-current assets and reduce financial result	(1 144)	(1 160)
4.2	Differences that arise in formation of provisions and reduce financial result	-	-
4.3	Differences that arise during recognition of negative value of tax return for 2015 and reduce financial result	(729)	-
5	Taxable income not included in the reported profit (loss) (differences that arise on transactions of sale or other disposal of securities (amount of decreases in value of securities) and increase financial result)	-	16 323
6	Non-taxable income recognized in accounting (revaluation of securities held-for-trading)	-	-
7	Current tax contributions formed insufficiently (excessively) in prior periods	-	-
8	Unrecognized tax losses carry forward	-	-
9	Use of previously unrecognized tax losses		
10	Impact of tax rate change	-	-
11	Changes in the amount of net deferred tax asset not recorded in accounting	-	-
12	Other adjustments (differences that arise from residual value of an item of property and equipment upon its sale)	-	311
13	Income tax expenses	12 249	-

The Bank adopted a decision not to recognize deferred tax assets in the amount of UAH 1 038 thousand due to the lack of confidence in the sale of an asset.

In 2016, the Bank’s profit taxation was carried out according to Section III of the Tax Code of Ukraine. Income tax rate for 2016 was **18%**.

Table 31.3. Tax implications of recognition of deferred tax assets and deferred tax liabilities for 2016

(UAH, ths.)

Line	Item	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
1	2	3	4	5	6	7
1	Tax effect of **temporary differences** that decrease (increase) taxes payable and tax losses carried forward	5 763	(5 763)	-	-	-
2	Net deferred tax asset	1 038	(1 038)	-	-	-
3	Recognised deferred tax liability	-	-	-	-	-

Table 31.4. Tax implications of recognition of deferred tax assets and deferred tax liabilities for 2015

(UAH, ths.)

Line	Item	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
1	2	3	4	5	6	7
1	Tax effect of **temporary differences** that decrease (increase) taxes payable and tax losses carried forward	17 025	(17 025)	-	-	-
1.1	Revaluation of assets	17 025	(17 025)	-	-	-
2	Net deferred tax asset (**liability)**	3 064	(3 064)	-	-	-
3	Recognised deferred tax liability	3 064	(3 064)	-	-	-

Note 32. Profit/(Loss) per Ordinary Share

Table 32.1. Net and adjusted profit/(loss) per one ordinary share

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Profit/(loss) attributable to the holders of ordinary shares of the Bank	50 036	(14 828)
2	Profit/(loss) for the year	50 036	(14 828)
3	Average annual number outstanding ordinary shares (in thousands)	10 172	6 478
4	Net and adjusted profit/(loss) per ordinary share (UAH)	4,92	(2,29)

The data of Note 32 are disclosed in the Statement of Comprehensive Income (Income Statement).

Note 33. Operating segments

Table 33.1. Income, expenses and results of reporting segments for 2016

(UAH, ths.)

Line	Item	Reporting segments				Other segments and operations	Total
		services to corporate clients	services to individuals	interbank operations	investing activities		
1	2	3	4	5	6	7	8
	Income from external customers:						
1	Interest income	20 762	53	1 250	5 353	-	27 418
2	Commission income	3 877	63	31	-	-	3 971
3	Other operating income	1 774	-	-	-	-	1 774
4	Total segment income	26 413	116	1 281	5 353	-	33 163
5	Interest expenses	(3 275)	(514)	(1)	-	-	(3 790)
6	Allocated to the provision for impairment of loans and due from banks	4 913	55	1 882	-	-	6 850
7	Allocated to the provision for impairment of accounts receivable	-	-	-	-	(84)	(84)
8	Gains less losses from transactions with financial instruments at fair value through profit or loss	-	-	(2)	-	-	(2)
9	Gains less losses from foreign currency transactions	-	20	55 291	-	-	55 311
10	Gains less losses from revaluation of foreign currency transactions	-	-	-	-	3 040	3 040
11	Commission expenses	-	-	(531)	-	-	(531)
12	Impairment of securities available-for-sale	-	-	-	(1 901)	-	(1 901)
13	Allocated to the provision for liabilities	(2 933)	-	-	-	-	(2 933)
14	Administrative and other operating expenses	-	-	-	-	(26 838)	(26 838)
15	**SEGMENT RESULT: Profit/(loss) before tax**	**25 118**	**(323)**	**57 920**	**3 452**	**(23 882)**	**62 285**

Table 33.2. Income, expenses and results of reporting segments for 2015

(UAH, ths.)

Line	Item	Reporting segments				Other segments and operations	Total
		services to corporate clients	services to individuals	interbank operations	investing activities		
1	2	3	4	5	6	7	8
	Income from external customers:						
1	Interest income	27 542	90	44	2 591	-	30 267
2	Commission income	373	99	1	-	-	473
3	Other operating income	308	93	-	-	-	401
4	Total segment income	28 223	282	45	2 591	-	31 141
5	Interest expenses	(4 720)	(17)	(219)	-	-	(4 956)
6	Allocated to the provision for impairment of loans and due from banks	5 904	57	(1 882)	-	-	4 079
7	Allocated to the provision for impairment of accounts receivable	(7)	-	(2)	-	-	(9)
8	Gains less losses from transactions with financial instruments at fair value through profit or loss	-	-	-	(16 323)	-	(16 323)
9	Gains less losses from foreign currency transactions	-	2	(91)	-	-	(89)
10	Gains less losses from revaluation of foreign currency transactions	-	-	-	-	643	643
11	Commission expenses	-	-	(27)	-	-	(27)
12	Impairment of securities available-for-sale	-	-	-	(23 581)	-	(23 581)
13	Allocated to the provision for liabilities	16	-	-	-	-	16
14	Administrative and other operating expenses	-	-	-	-	(8 660)	(8 660)
15	**SEGMENT RESULT: Profit/(loss) before tax**	**29 416**	**324**	**(2 176)**	**(37 313)**	**(8 017)**	**(17 766)**

Table 33.3. Assets and liabilities of reporting segments for 2016

(UAH, ths.)

Line	Item	Reporting segments				Other segments and operations	Total
		services to corporate clients	services to individuals	interbank operations	investing activities		
	SEGMENT ASSETS						
1	Segment assets	184 382	149	55 232	62 044	-	301 807
2	Unallocated assets	-	-	-	-	11 164	11 164
3	Total assets	184 382	149	55 232	62 044	11 164	312 971
	SEGMENT LIABILITIES						
4	Segment liabilities	102 736	11 441	867	-	-	115 044
5	Unallocated liabilities	-	-	-	-	10 149	10 149
6	Total liabilities	102 736	11 441	867	-	10 149	125 193

Table 33.4. Assets and liabilities of reporting segments for 2015

(UAH, ths.)

Line	Item	Reporting segments				Other segments and operations	Total
		services to corporate clients	services to individuals	interbank operations	investing activities		
	SEGMENT ASSETS						
1	Segment assets	85 104	168	7 675	40 360	-	133 307
2	Unallocated assets	-	-		-	6 683	6 683
3	Total assets	85 104	168	7 675	40 360	6 683	139 990
	SEGMENT LIABILITIES						
4	Segment liabilities	59 453	7 518	-	-	-	66 971
5	Unallocated liabilities	-	-	-	-	277	277
6	Total liabilities	59 453	7 518	-	-	277	67 248

Note 34. 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 goal of risk management is to identify, analyse and manage the risks faced by the Bank, set the appropriate risk limits and implement risk controls, as well as perform continuous monitoring of risk levels and adherence to risk limits.

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).

The credit risk management policy provides for the following:

- procedures for review and approval of loan requests;
- methodology for assessing the creditworthiness of borrowers;
- methodology for valuation of collateral;
- loan documentation requirements;
- procedures for continuous monitoring of risks arising in relation to loans granted and other credit risks.

In order to manage credit risk, the Bank deals with counterparties with a high financial standing and receives collaterals with sufficient value and liquidity. Considering current market conditions, in order to reduce the credit risk, the Bank adheres to a conservative approach to credit risk management, particularly, in assessing the credit quality of borrowers, collateral value, sector risks, etc.

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.

Table 34.1. Foreign currency risk analysis for 2016

(UAH, ths.)

Line	Currency	30.12.2016				31.12.2015			
		Monetary assets	Monetary liabilities	Derivatives	Net position	Monetary assets	Monetary liabilities	Derivatives	Net position
1	USD	-	3 770	2 939	(831)	1 781	1 618	-	163
2	EUR	3 022	-	(2 773)	249	485	467	-	18
3	GBP	52	-	-	52	1	1	-	0
4	Other	9	-	-	9	11	0	-	11
5	**Total**	**3 083**	**3 770**	**166**	**(521)**	**2 278**	**2 086**	**-**	**192**

Table 34.2. Changes in financial result and equity due to possible changes in exchange rates set at the reporting date, provided that all other variables remain unchanged

(UAH, ths.)

Line	Currency	As at 12/30/2016		As at 12/30/2015	
		Impact on profit/ (loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
1	USD strengthening by 5%	(189)	(189)	8	8
2	USD weakening by 5%	180	180	(7)	(7)
3	EUR strengthening by 5%	151	151	1	1
4	EUR weakening by 5%	(144)	(144)	(1)	(1)
5	GBP strengthening by 5%	3	3	0	0
6	GBP weakening by 5%	(2)	(2)	0	0
7	Other foreign currency strengthening by 5%	0	0	1	1
8	Other foreign currency weakening by 5%	0	0	(1)	(1)

Table 34.3. Changes in financial result and equity due to possible changes in exchange rates set as weighted average exchange rate, provided that all other variables remain unchanged

(UAH, ths.)

Line	Currency	Weighted average exchange rate for 2016		Weighted average exchange rate for 2015	
		Impact on profit/ (loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
1	USD strengthening by 5%	(177)	(177)	7	7
2	USD weakening by 5%	169	169	(7)	(7)
3	EUR strengthening by 5%	151	151	1	1
4	EUR weakening by 5%	(143	(143)	(1)	(1)
5	GBP strengthening by 5%	3	3	0	0
6	GBP weakening by 5%	(3)	(3)	0	0
7	Other foreign currency strengthening by 5%	0	0	1	1
8	Other foreign currency weakening by 5%	0	0	(1)	(1)

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 34.4. General analysis of interest rate risk

(UAH, ths.)

Line	Item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Non-monetary	Total
	2016						
1	Total financial assets	118 554	30 199	85 779	40 098	-	274 630
2	Total financial liabilities	43 764	52 301	-	-	-	96 065
3	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
	2015						
4	Total financial assets	49 409	200	18	114 016	-	163 643
5	Total financial liabilities	-	-	-	55 000	-	55 000
6	Net GAP on interest-bearing assets and liabilities as at the end of previous period	49 409	200	18	59 016	-	108 643

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 34.5. Analysis of financial liabilities by maturities for 2016

(UAH, ths.)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
1	Due to other banks	0	0	0	0	0
2	Due to customers:	57 550	41 705	10 953	0	110 208
2.1	Private individuals	489	0	10 953	0	11 442
2.2	Other	57 061	41 705	0	0	98 766
3	Subordinated debt	0	0	0	0	0
4	Other financial liabilities	823	0	311	700	1 834
5	Other credit-related commitments	0	0	150 863	0	150 863
6	Currency before swap transactions	258 782				258 782
7	**Total potential future payments related to financial liabilities**	317 155	41 705	162 127	700	521 687

Table 34.6. Analysis of financial liabilities by maturities for 2015

(UAH, ths.)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
1	Due to other banks	0	0	0	0	0
2	Due to customers:	4 095	0	0	0	4 095
2.1	Private individuals	752	0	0	0	752
2.2	Other	3 343	0	0	0	3 343
3	Subordinated debt	0	0	0	0	0
4	Other credit-related commitments	3 865	0	0	0	3 865
5	**Total potential future payments related to financial liabilities**	7 960	0	0	0	7 960

Table 34.7. Analysis of financial assets and liabilities by maturities based on expected maturities for 2016

(UAH, ths.)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	8 273	0	0	0	0	8 273

1	2	3	4	5	6	7	8
2	Trading securities	62 044	0	0	0	0	62 044
3	Due from other banks	49 969	0	0	0	0	49 969
4	Loans and advances to customers	59 519	20 086	70 557	40 314	0	190 476
5	Securities in the Bank portfolio available-for-sale				27 348		27 348
6	Other financial assets	199	0	0	3 151	3 251	6 601
7	Swap transaction requirements	259 012					259 012
8	Total financial assets	439 016	20 086	70 557	70 813	3 251	603 723
	Liabilities						
9	Due to other banks	0	0	0	0	0	0
10	Due to customers	57 550	41 689	10 953	0	0	110 192
11	Other financial liabilities	823	0	311	700	0	1 834
12	Subordinated debt	0	0	0	0	0	0
13	Swap transaction liabilities	258 782					258 782
14	Lending commitments			150 863			150 863
15	Total financial liabilities	317 155	41 689	162 127	700	0	521 671
16	Net liquidity GAP as at 31 December	121 861	-21 603	-91 570	70 113	3 251	82 052
17	Total liquidity GAP as at 31 December	121 861	100 258	8 688	78 801	82 052	82 052

Table 34.8. Analysis of financial assets and liabilities by maturities based on expected maturities for 2015

(UAH, ths.)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	3 315	0	0	0	0	3 315
2	Trading securities	40 360	0	0	0	0	40 360
3	Due from other banks	9 557	0	0	0	0	9 557
4	Loans and advances to customers	2 582	200	18	90 434	0	93 234
5	Securities in the Bank portfolio available-for-sale				23 582		23 582
6	Other financial assets	855	0	240	2 453	40	3 589
7	Total financial assets	56 669	200	258	116 469	40	173 637
	Liabilities						
8	Due to other banks	0	0	0	0	0	0

1	2	3	4	5	6	7	8
9	Due to customers	10 861	0	0	0	0	10 861
10	Other financial liabilities	1 195	0	0	185	0	1 380
11	Subordinated debt	0	0	0	0	55 000	55 000
12	Total financial liabilities	12 056	0	0	185	55 000	67 241
13	Net liquidity GAP as at 31 December	44 614	200	258	116 284	-54 960	106 396
14	Total liquidity GAP as at 31 December	44 614	44 814	45 072	161 355	106 396	106 396

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 35. 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.

For the purpose of capital analysis, the capital management ratio method is used whereby the Bank estimates quantitative relationship between various items, classes or groups of balance-sheet items and the level of the Bank's equity adequacy.

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.

The Bank's regulatory capital is a set of basic (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 No. 315 approved by Decree of the NBU on 2 June 2009.

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.

Monitoring of capital adequacy level lies in the calculation of the projected norm of regulatory capital and presentation of calculations and related results to the Bank's management.

Monitoring of capital adequacy lies in calculation of the impact of changes in capital volume to other standards, in the calculation of which the regulatory capital ratio is used, and presentation of calculations and related results to the Bank's management.

Regulatory capital adequacy ratio calculated according to the requirements of the NBU amounts to 41.3% (31 December 2015: 128.84%) with the threshold value of 10%. As at 30 December 2016, the Bank's regulatory capital amounted to UAH 173 617 thousand (31 December 2015: UAH 131 410 thousand).

Table 35.1 Regulatory capital structure

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Core capital	135 338	76 410
1.1	Actually paid authorized share capital	129 779	64 779
1.2	Contributions to unregistered share capital	-	-

1	2	3	4
1.3	Disclosed provisions created or increased by retained earnings:	22 791	22 791
1.3.1	General provisions and reserve funds formed under the laws of Ukraine	22 791	22 791
1.3.1.1	of which reserve funds	21 662	21 662
1.4	Reduction of capital, including:	(17 232)	(11 160)
1.4.1	Intangible assets less amortization	(2 404)	(40)
1.4.2	Estimated loss for previous and current year before adjustment	(14 828)	(11 120)
2	Additional capital	38 279	55 000
2.1	Provisions for standard debt of other banks, standard liabilities for loans to customers and standard liabilities for transactions at off-balance sheet accounts (including revaluation of property and equipment)	2 451	0
2.2	Estimated current year profit	35 828	0
2.3	Subordinated debt	0	55 000
3	***Total regulatory capital***	***173 617***	***131 410***

Note 36. Contingent Liabilities

1) legal proceedings

As at 31 December 2016 (end of day), the cases where the Bank appears as the defendant in the court were absent, therefore there have been no 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 36.1. Structure of credit-related commitments

(UAH, ths.)

Line	Item	31.12.2016	31.12.2015
1	2	3	4
1	Credit-related commitments provided	9 047	100
2	Guarantees issues	150 863	-
3	Provision for credit-related commitments	(2 933)	-
4	***Total credit-related commitments, net of provision***	***156 977***	***100***

During 2016 and 2015, the Bank provided credit-related commitments exclusively in the national currency of Ukraine.

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

As at 31 December 2016 (end of day), the Bank did not provide assets as collateral without termination of recognition. The Bank has had no assets with restrictions on title, use and disposal.

Note 37. Derivative Financial Instruments

Table 37.1. Fair value of derivative financial instruments recorded in the Bank's trading portfolio

(UAH, ths.)

Line	Item	31.12.2016		31.12.2015	
		Positive fair value	Negative fair value	Positive fair value	Negative fair value
1	2	4	5	6	7
1	Swap contracts	711	(867)	-	-
2	***Net fair value***	**-**	***(156)***	**-**	**-**

During 2016 and 2015, the Bank did not use derivative financial instruments for hedge accounting.

Note 38. 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 38.1. Summary of financial instruments accounted for at fair value based on various measurement levels for 2016

(UAH, ths.)

Line	Item	Fair value based on different valuation techniques			Total fair value	Total carrying amount
		Market quotations (level 1)	Valuation technique based on observable market data (level 2)	Valuation technique based on indicators not evidenced by observable market data (level 3)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Financial assets at fair value through profit or loss	711	-	-	711	711
2	Loans and advances to customers	-	-	184 332	184 332	184 332
3	Securities held-to-maturity	-	62 044	-	62 044	62 044
4	Other financial assets	-	-	199	199	199
	FINANCIAL LIABILITIES					
5	Due to customers	-	-	99 240	99 240	99 240
6	Financial liabilities at fair value through profit or loss	867	-	-	867	867
7	Debt securities issued	-	-	10 952	10 952	10 952
8	Other financial liabilities	-	-	822	822	822

Table 38.2. Summary of financial instruments accounted for at fair value based on various measurement levels for 2015

(UAH, ths.)

Line	Item	Fair value based on different valuation techniques			Total fair value	Total carrying amount
		Market quotations (level 1)	Valuation technique based on observable market data (level 2)	Valuation technique based on indicators not evidenced by observable market data (level 3)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Due from other banks	-	7 528	-	7 528	7 528
2	Loans and advances to customers	-	-	85 270	85 270	85 270
3	Securities held-to-maturity	-	40 360	-	40 360	40 360
	FINANCIAL LIABILITIES					
4	Due to customers	-	-	10 861	10 861	10 861
5	Other financial liabilities	-	107	-	107	107
6	Subordinated debt	-	-	56 109	56 109	56 109

Note 39. Related Party Transactions

Table 39.1. Balances of related party transactions as at the end of 2016

(UAH, ths.)

Line	Item	Major participants (shareholders) of the bank	Key management personnel	Other related parties
1	2	3	4	5
1	Due to customers (contractual interest rate 0 %)	-	-	295
2	Due to customers (contractual interest rate 7 %)	10 953	-	-
3	Due to customers (contractual interest rate 7.75 %)	-	-	41 408

Table 39.2. Balances of related party transactions as at the end of 2015

(UAH, ths.)

Line	Item	Major participants (shareholders) of the bank	Key management personnel	Other related parties
1	2	3	4	5
1	Due to customers (contractual interest rate 0 %)	-	-	1

Table 39.3. Income and expenses on related party transactions for 2016

(UAH, ths.)

Line	Item	Major participants (shareholders) of the bank	Key management personnel	Other related parties
1	2	3	4	5
1	Interest expenses	1 712	-	281
2	Administrative and other operating expenses	99	6 348	27

Table 39.4. Income and expenses on related party transactions for 2015

(UAH, ths.)

Line	Item	Major participants (shareholders) of the bank	Key management personnel	Other related parties
1	2	3	4	5
1	Interest expenses	-	3	-
2	Administrative and other operating expenses	-	2 067	-

Table 39.5. Key management personnel remuneration

(UAH, ths.)

Line	Item	31.12.2016		31.12.2015	
		Expenses	Accrued liabilities	Accrued liabilities	Accrued liabilities
1	2	3	4	5	6
1	Current employee benefits	5 026	282	1 565	24
2	Layoff costs	-	-	452	-

Note 40. Subsequent Events

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

Deputy Chairman of the Board N. Onyschenko

Chief Accountant N. Bochkovska

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