PUBLIC JOINT-STOCK COMPANY
COMMERCIAL BANK
“PRAVEX-BANK”

Annual financial statements
31 December 2016

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(in thousands of Ukrainian hryvnias)

Item	Notes	31.12.2016	31.12.2015
1	2	3	4
ASSETS			
Cash and cash equivalents	6	917 691	440 124
Mandatory reserves with the National Bank of Ukraine		70 171	-
Financial assets at fair value through profit or loss	7	-	2 633
Loans and advances to customers	8	982 249	1 826 285
Securities available-for-sale	9	1 692 931	1 813 143
Investment property	10	176 306	112 914
Current income tax receivable		1 631	1 489
Property, equipment and intangible assets	11	485 636	606 060
Other financial assets	12	31 649	41 393
Other assets	13	45 254	64 071
Non-current assets held-for-sale and disposal group assets	14	-	32 525
Total assets		**4 403 518**	**4 940 637**
LIABILITIES			
Due to banks	15	42 060	24 060
Due to customers	16	3 004 713	2 991 844
Certificates of deposit issued by the Bank	17	80 708	1
Deferred tax liabilities	28	5 890	16 464
Provisions for liabilities	18	10 599	11 146
Other financial liabilities	19	86 751	115 628
Other liabilities	20	45 132	47 985
Total assets		**3 275 853**	**3 207 128**
EQUITY			
Share capital	21	1 038 007	1 038 007
Share premium	21	3 502 964	3 502 964
Accumulated deficit		(3 682 223)	(3 124 547)
Reserves and other finds		1 332	1 332
Revaluation reserves		267 585	315 753
Total equity		**1 127 665**	**1 733 509**
Total liabilities and equity		**4 403 518**	**4 940 637**

Chairman of the Board
PJSC CB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
PJSC CB "PRAVEX-BANK" **O.Yu. Kibets**
DATE: 15 FEBRUARY 2017

			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**2016**	**2015**
1	**2**	**3**	**4**
Interest income	24	533 403	517 468
Interest expense	24	(197 055)	(240 455)
Net interest income		**336 348**	**277 013**
Increase in provisions for impairment of loans and advances to customers, and due from banks	8	(565 123)	(553 241)
Net interest expense after provisions for impairment of loans and advances to customers, and due from banks		**(228 775)**	**(276 228)**
Commission income	25	209 476	176 312
Commission expense	25	(49 832)	(70 096)
Gains less losses from dealing in financial instruments at fair value through profit or loss		(959)	103
Gains less losses arising from sale of securities available-for-sale		-	1 337
Gains less losses from dealing in foreign currencies		12 606	26 053
Gains less losses arising from foreign currency translation		(546)	(93 388)
Gains less losses arising from revaluation of investment properties	10	(14 101)	975
Gains/(losses) from initial recognition of financial assets at interest rates higher or lower than market rates		(3 522)	(1 036)
Gains/(losses) from initial recognition of financial liabilities at interest rates higher or lower than market rates		-	287
Increase in provisions for impairment of accounts receivable and other financial assets	12, 13	(242)	(7 993)
Increase in provisions for impairment of securities available-for-sale	9	-	(31)
Net decrease/(increase) in provisions for liabilities	18	535	(9 780)
Other operating income	26	47 199	34 749
Administrative and other operating expenses	27	(564 836)	(580 025)
Loss before tax		**(592 997)**	**(798 761)**
Income tax benefit	28	4 616	245
Loss from continuing operations		**(588 381)**	**(798 516)**
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation (write down) of property and equipment	22	(23 453)	71 244
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	22	6 080	(12 496)
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS			

(in thousands of Ukrainian hryvnias)

Item	Notes	2016	2015
1	2	3	4
Revaluation of securities available-for-sale	22	(110)	110
Income tax related to items of other comprehensive income that will be reclassified to profit or loss	22	20	(20)
Other comprehensive income (loss) after tax		**(17 463)**	**58 838**
Total comprehensive income (loss) for the year		**(605 844)**	**(739 678)**
Loss attributable to shareholders		(588 381)	(798 516)
Total comprehensive loss attributable to shareholders		**(605 844)**	**(739 678)**
Loss per share from continuing operations:			
Basic loss per ordinary share	29	(0,35)	(0,49)
Diluted loss per ordinary share	29	(0,35)	(0,49)
Loss per share attributable to shareholders:			
Basic loss per ordinary share for the year	29	(0,35)	(0,49)
Diluted loss per ordinary share for the year	29	(0,35)	(0,49)

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(in thousands of Ukrainian hryvnias)

Item	Notes	2016	2015
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		556 111	316 892
Interest expense paid		(202 600)	(255 089)
Commission income received		210 312	175 524
Commission expense paid		(49 814)	(70 054)
Gains/losses from dealing in foreign currencies		12 606	26 053
Other operating income received		47 134	9 731
Administrative and other operating expenses paid		(510 312)	(507 635)
Cash from (used in) operating activities before changes in operating assets and liabilities		**63 437**	**(304 578)**
Net increase in mandatory reserves with the National Bank of Ukraine		(70 171)	-
Net decrease in due from banks		-	43
Net decrease in loans and advances to customers		295 768	448 863
Net decrease in other financial assets		36 916	21 347
Net increase in due to banks		10 924	(195 276)
Net decrease in due to customers		(120 909)	(1 070 223)
Net increase in debt securities issued by the Bank		77 432	-
Net (decrease)/increase in other financial liabilities		(23 411)	9 684
Net cash flows (used in) from operating activities		**269 986**	**(1 090 140)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available-for-sale		(51 906 000)	(34 677 000)
Proceeds from sale of securities available-for-sale		52 005 000	33 389 606
Proceeds from sale of financial assets at fair value through profit or loss		1 087	-
Proceeds from sale of non-current assets		26 000	-
Purchase of property and equipment		(4 227)	(1 359)
Proceeds from disposal of property, equipment and intangible assets		40 471	22 345
Purchase of intangible assets		(5 368)	(38 184)
Dividends received		65	46
Net cash flows (used in) from investing activities		**157 028**	**(1 304 546)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares		-	2 007 000
Repayment of subordinated debt		-	(317 009)
Net cash flows from financing activities		-	**1 689 991**
Net increase in cash and cash equivalents		427 014	(704 695)
Effect of changes in NBU exchange rates on cash and cash equivalents		50 553	156 247
Cash and cash equivalents at the beginning of the year	6	**440 124**	**988 572**

(in thousands of Ukrainian hryvnias)

Item	Notes	2016	2015
1	2	3	4
Cash and cash equivalents at the end of the year	6	917 691	440 124

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(in thousands of Ukrainian hryvnias)

Item	Attributable to the shareholders						Total equity
	share capital	share premium and other additional capital	reserves and other funds	revaluation reserves	retained earnings	total	
1	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Balance as at 1 January 2015	**1 018 806**	**1 521 465**	**1 332**	**240 176**	**(2 309 292)**	**472 487**	**472 487**
Total comprehensive income	-	-	-	53 976	(793 654)	(739 678)	(739 678)
(loss) for the year 2015	-	-	-	-	(798 516)	(798 516)	(798 516)
other comprehensive income				53 976	4 862	58 838	58 838
Revaluation of property and equipment	-	-	-	53 886	4 862	58 748	58 748
Revaluation of securities	-	-	-	90	-	90	90
Other adjustments	-	-	-	21 601	(21 601)	-	-
Unregistered share capital	-	-	-	-	-	-	-
Issue of shares:							-
nominal value	19 201	-	-	-	-	19 201	19 201
share premium	-	1 981 499	-	-	-	1 981 499	1 981 499
Closing balance as at 31 December 2015 (balance as at 1 January 2016)	**1 038 007**	**3 502 964**	**1 332**	**315 753**	**(3 124 547)**	**1 733 509**	**1 733 509**
Total comprehensive income	-	-	-	(48 168)	(557 676)	(605 844)	(605 844)
(loss) for the year 2016	-	-	-	-	(588 381)	(588 381)	(588 381)
other comprehensive income	-	-	-	(48 168)	30 705	(17 463)	(17 463)

(in thousands of Ukrainian hryvnias)

Item	Attributable to the shareholders						Total equity
	share capital	share premium and other additional capital	reserves and other funds	revaluation reserves	retained earnings	total	
1	3	4	5	6	7	8	9
Revaluation of property and equipment	-	-	-	(48 078)	30 705	(17 373)	(17 373)
Revaluation of securities	-	-	-	(90)	-	(90)	(90)
Closing balance as at 31 December 2016	**1 038 007**	**3 502 964**	**1 332**	**267 585**	**(3 682 223)**	**1 127 665**	**1 127 665**

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Note 1. Background

Full name of the Bank	Public Joint-Stock Company Commercial Bank "PRAVEX-BANK"
Short name of the Bank	PJSC CB "PRAVEX-BANK"
Location	9/2 Klovsky Uzviz, Kyiv 01021, Ukraine
Country of registration	Ukraine
Form of ownership	Public Joint-Stock Company
Name and location of the parent company	Intesa Sanpaolo S.p.A. 10121 ItaliaTorino, 156 Piazza San Carlo, 156
Management shareholding	0%
Foreign investor shareholding	Intesa Sanpaolo S.p.A. (Italy) owns 100% of the Bank's share capital
Reporting period	From 1 January to 31 December 2016
Reporting currency and measurement unit	Thousands of Ukrainian hryvnias

The strategic goal of activity and development of PJSC CB "PRAVEX-BANK" (hereinafter – "the Bank") is to create a universal bank providing a full range of bank services to legal entities and individuals.

The operation within the framework of limited macroeconomic scenario on the background of frozen military conflict in the East of Ukraine, unstable economic situation, inflation and devaluation risks and varying intentions of the financial markets players affected the Bank's strategy in 2016 and had an adverse impact on the Bank's financial results.

The above factors forced the Bank to focus on the solvency issues and its reliability, giving the highest priority to:

- liquidity management and foreign exchange risks;
- additional effort in dealing with problem loans;
- operational efficiency and financial performance improvement;
- strengthening the Bank's position both in the corporate and retail segments, particularly by attraction of new clients and enhancing the service quality.

In accordance with the above key priorities, the Bank took the following actions:

- focused on increasing the volume of liquid assets and investing in the NBU's deposit certificates to avoid liquidity risks and ensure risk-free interest income,
- lent limited amounts to legal entities targeting the customers with stable financial position and high reputation on the market,
- reduced the cost of the funds borrowed from the customers, primarily retail customers without significant impact on free liquidity,
- continued work aimed at realization/sales of the pledged properties (previously foreclosed by the Bank) and the premises of its outlets that were not used in operating activity,
- continued to actively optimize the branches network and increase their efficiency.

However, the measures taken by the Bank were not sufficient to offset the adverse impact of external factors, which resulted in the negative financial result of minus UAH 588 million in 2016.

Note 2. Ukrainian business environment

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest in early 2014, in March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued as at the date of these financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert substantial part of foreign currency proceeds to national currency, a limitation on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Bank's results and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

Note 3. Basis of preparation

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – 'IFRS'), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, and effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market.

During the year and in the preparation of these financial statements, the Bank consistently applied significant accounting policies set out below.

The preparation of financial statements under IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Transactions are recorded in the underlying transaction currency. Assets and liabilities, income and expenses from transactions with foreign currencies are reflected in UAH equivalent at the official

NBU exchange rate for foreign currencies at the date of recognition. The functional currency of these financial statements is the Ukrainian hryvnia (UAH). The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

Note 4. Accounting policies of PJSC CB “PRAVEX-BANK” for 2016

4.1. Basis of measurement

The Bank’s accounting policies are based on the underlying accounting principles under which the financial statements are prepared: completeness, substance over form, standalone basis, prudence, going concern, accrual and matching of income and expenses, consistency (consistent application by the bank of selected accounting policies) and the single monetary unit.

Information on criteria for the recognition and measurement of assets and liabilities and income and expenses is set out in the following sections of this note.

The financial statements have been prepared on the historical cost basis except for:

- securities available-for-sale and financial assets at fair value through profit or loss that are measured at fair value;
- non-current assets held-for-sale that are measured at lower of carrying amount and fair value;
- buildings and investment property that are measured at fair value.

Use of accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that may significantly affect the amounts in the statement of financial position and in the statement of profit or loss and other comprehensive income, as well as the amounts of assets and liabilities in the financial statements. The estimates are based on the available information and subjective judgments, often based on historical experience, that are used to formulate reasonable assumptions when assessing results of operations. Taking into account their nature, estimates and assumptions used, can be changed from year to year, and, therefore, the amounts presented in the financial statements may significantly differ in the future financial years as a result of change in the subjective estimates.

Management should make its subjective estimates regarding the following:

- assessment of impairment losses of loans and, generally, other financial assets;
- estimates and assumptions with regard to realisation of deferred tax assets.

In particular, information about significant areas of estimation uncertainty in applying accounting policies is as follows.

Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan’s original interest rate. Actual principal and interest payments depend on the borrowers’ ability to generate cash flows from operations or obtain alternative financing, and could differ from management’s estimates.

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Note 8 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

Management believes it is taking all the necessary measures to support the sustainability and liquidity position of the Bank's business in the current circumstances, however, any further deterioration in the liquidity of the financial markets, the increased outflow of funds from the banking system and volatility in the currency market may affect the Bank's liquidity position in a manner not currently determinable.

Exchange rates applied to the translation of assets and liabilities denominated in foreign currencies. The Ukrainian hryvnia is not a convertible currency outside Ukraine and, accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or any other exchange rate. Any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

In preparation of these financial statements, management applied the NBU official rate for the retranslation of the operations and balances in foreign currencies. The NBU official exchange rates are derived from officially published source. Management believes that application of these rates substantially serves comparability purposes.

Changes in accounting policies

During 2016, there were no changes in the accounting policies.

4.2. Initial recognition of financial instruments

A financial instrument represents any contract causing origination (increase) of a financial asset for one counterparty and financial liability or equity instrument for the other counterparty.

The Bank recognises financial assets and liabilities in accounting records, when the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument (financial asset or financial liability) is initially measured by the Bank at its fair value.

Transaction costs that are directly attributable to the recognition of a financial instrument, including commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc., are added to the amount of the discount (premium) for underlying financial instrument. The Bank amortises the amount of the discount/premium during the period of life of a financial instrument (excluding financial instruments held for trading) using the effective interest method on at least monthly basis. The amount of the discount/premium must be fully amortised by the financial instrument maturity date.

The Bank classifies its financial instruments as follows: cash and cash equivalents, financial assets at fair value through profit or loss, loans and accounts receivable, financial assets available-for-sale and financial liabilities.

4.3. Impairment of assets

Financial assets

The Bank assesses at each reporting date whether objective evidence of impairment exists for financial assets that are individually significant, or for group of financial assets that are not individually significant. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulties, default or delinquency in interest or principal payments, probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed (significant) financial asset, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is written down through an allowance account, and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income. Interest income continues to accrue on the reduced carrying amount applying the original effective interest rate of the asset. Loans are written off against provisions when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. The bad debt is recognised, and the debt balance is written off against the provision in the following cases.

The Bank analyses its receivables on loans and other accounts receivable to identify bad debts at least once a quarter.

The Bank recognizes credit and other receivables as bad if they meet at least one or several of the following criteria:

the limitation period on the debt has expired, and no repayments of the debt were made for a three-year period;

overdue debt of a deceased person possessing no inheritable property upon which the execution could be levied;

overdue debt of missing or deceased persons recognised as such by court decision;

forgiven overdue debt of a retail borrower, unless such individual is the creditor's associate, or if he or she is, or was employed by the creditor;

overdue debt of a corporate or retail borrower outstanding due to insufficiency of the borrower's property, to the extent that the relevant e the enforcement measures in respect of the borrower's property did not result in payoff of the debt;

cancellation of the debt collection proceedings as a result of their inefficiency, i.e. when the Bank's related legal expenses may exceed the collectible amount;

debt uncollectible due to impediments of extraordinary nature (force majeure) as determined by the law, including:

-extraordinary weather conditions and natural disasters (e.g. hurricane, storm, flood, snow blockage, glaze ice, earthquake, fire, subsidence or landslide), unless such weather conditions and natural disasters are insurance events covered by an insurance policy in respect of the pledged property;

- extraordinary situations caused by a party other than a party to the relevant agreement (e.g. strike, lockout, declared or undeclared war, threat of war, act of terror, blockade, revolution, conspiracy, uprising, mass unrest, public rallies, illegal acts of third parties, fire or explosion);

- conditions brought under regulation of relevant executive authorities, as well as those related to clean-up and remediation operations with regard to natural disasters and extraordinary situations;

- debt of business entities that were recognised bankrupt or liquidated in a due course of the law;
- debt outstanding upon completion of the bankruptcy procedure, unless the Bank's expenses have been fully recovered or there is a possibility to collect any other type of security;
- debt outstanding upon decision of the court not in the Bank's favour and/or decision of the Bank to abandon any further claims in respect of the debt;
- debt recognised fraudulent as a result of the line-of-duty investigation.

Bad debt is recognised and written off against the provision at the decision of the Management Board. Once the bad debt is written off against the provision, it is carried on the off-balance sheet accounts during the period specified by Ukrainian law.

If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss and other comprehensive income.

In particular, the Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining the allowance amount include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected revenues, feasibility of other financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date.

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, mortgage loans, car loans and consumer loans) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated by the Bank at each reporting date with each portfolio receiving a separate review.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Renegotiated loans

If the currency of the loan has been changed, the original loan is derecognised and the new loan is recognised.

If the loan restructuring is caused by the financial difficulties of the borrower and the loan is considered to be impaired after restructuring, the Bank recognises the difference between the present value of future cash flows under new terms discounted using original effective interest rate and the carrying amount recognised before restructuring as impairment loss in the reporting period.

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered to be past due, but are treated as current loans once minimum number of repayments required under a new arrangement have been received. Renegotiated loans subject to individual impairment review are subject to ongoing reviews to determine whether they remain impaired.

Financial assets are assessed for impairment in accordance with the IFRS impairment assessment methodology based on the loan’s classification. Al loans classified to Non-performing loans as Past due, Unlikely to pay and Doubtful are deemed to be impaired. Adjustment for impairment loss on a financial instrument is calculated for the same period for which the provision has been created.
The credit indebtedness categories are reviewed on a monthly basis using the available objective and subjective criteria.

4.4. Derecognition of financial instruments

Financial assets are derecognised only when as a result of sale all the risks and rewards related to assets are transferred. On the contrary, if a significant portion of risks and rewards related to sold financial assets are retained, they continue to be recognised as assets even if the ownership for these assets was transferred. Unless the identification of transfer of risks and rewards is practicable, financial assets are derecognised when control over assets is lost. In other case, when control is retained at least partially, the Bank continues to recognise assets within its interest therein, which is measured based on the degree of participation in changes in the value of sold assets and underlying cash flows. Finally, sold financial assets are derecognised, if the entity retains contractual obligations for receiving cash flows from an asset, but simultaneously undertakes to transfer respective cash flows to third parties. The Bank derecognises a financial liability or its part when its contractual obligations are discharged or cancelled or expire.

4.5. Cash and cash equivalents

The Bank recognises cash on hand, balances on accounts in the National Bank of Ukraine (except for mandatory reserves held on a special account with the NBU and restricted for use), correspondent accounts, and overnight deposits in other banks within cash and cash equivalents. Due to existence of certain restrictions on their use, the Bank did not recognise the mandatory reserves held on a special account with the NBU within cash and cash equivalents in the statement of financial position and statement of cash flows.

4.6. Loans and advances to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as financial instruments available-for-sale; or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans are initially recognised on the underlying contract date based on the fair value of the financial instrument that equals to the amount given, including expenses/income that are directly attributable to a single loan and can be determined when originated even if paid at a later date.

Subsequent to initial recognition loans are carried at amortised cost, which equals to the original cost increased/decreased by principal repayments and by amounts of adjustments/repayments and amortisation calculated using the effective interest method of any difference between the initial amount and the amount expected in maturity that, usually, relates to expense/income which directly attributable to the loan. The effective interest rate is the rate that exactly discounts the estimated future cash flows on a loan, i.e. principal amount and interest, to the amount of the cash disbursed, including expenses/income which relate to the loan. This measurement method is based on the financial approach and allows allocating the economic effect of expenses/income over the remaining period until maturity.

4.7. Securities available-for-sale

Securities available-for-sale include financial assets that are not classified to other categories such as loans, financial assets held for trading, investments held to maturity.

Debt securities and shares available-for-sale are initially recognised at the settlement date. Assets are initially recognised at fair value taking into account transaction costs and income directly attributable to the instrument.

Subsequent to the initial recognition, financial assets available-for-sale are carried at fair value. Income and loss from change of fair value are recognised in other comprehensive income up to the moment the financial asset is derecognised or objective indications of impairment are identified. When a financial asset is sold or loss is recognised, accumulated gain or loss is reversed through the statement of profit or loss and other comprehensive income. For determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, pricing models are applied that take into account the current market and contractual prices of the underlying instruments and other factors. Equity instruments included to this category and derivative financial instruments originated based on equity instruments whose fair value may not be determined reliably are recognised at cost. Financial assets available-for-sale are reviewed to determine whether there is any indication of impairment. If any such indication exists, loss is determined as a difference between the carrying amount of the asset and its fair value. If indications of impairment no longer exist after the event that occurred after recognition of impairment, loans and debt securities are reversed through the statement of profit or loss and other comprehensive income and equity instruments are reversed through other comprehensive income. The reversal shall be recognised only to the extent that the carrying amount of the financial asset does not exceed its amortised cost had no impairment losses been recognised in the prior periods.

4.8. Financial instruments at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets and liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated as at fair value through profit or loss.

Management may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.
- All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

- Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

4.9. Property and equipment

Property and equipment represents tangible assets held by the Bank in its ordinary activity, to deliver services, to lease to other persons or to perform administrative function, to the extent that the useful lives of such assets exceed one year.

Property and equipment are initially recognised at cost including any costs directly attributable to acquisition and bringing the assets to the working condition for their intended use.

Subsequent to initial recognition, the Bank measures the property and equipment items, other than properties of the Bank, using historical cost method.

The assets that after initial recognition are measured at historical cost are not subject to any subsequent revaluations.

The Bank measures its properties applying the revalued cost method. The Bank remeasures any properties carried at revalued cost to the extent that the residual value of such properties differs significantly from its fair value at the balance sheet date. In case any properties are revaluated, the Bank performs revaluation of all other properties as of the same date.

To determine fair values of its properties, the Bank orders their independent expert appraisal as at the balance sheet date. Independent expert appraisal must be carried out by in independent appraiser as at the end of the reporting year.

Subsequent revaluations of a group of property and equipment revalued in previous periods must be carried out with a sufficient frequency to ensure their residual value as at the balance sheet date does not significantly differs from their fair value.

As at 1 October 2016, the Bank's properties revaluation was carried out by independent certified appraiser, LLC "Kredytno Brokerske Agentstvo". At the moment of valuation, LLC "Kredytno Brokerske Agentstvo" company held the appraiser's certificate required by the effective legislation of Ukraine and previous experience of valuation of similar properties.

The fair values of the properties subject to the valuation were determined as the market values net of the value added taxes. While assessing the market values of the subject properties, the appraiser applied comparison approach.

A revaluation increase on buildings is recognised directly in other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on buildings is recognised in profit or loss, except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity.

In recognising revaluation surplus, historical (revalued) amount of property and equipment is decreased by accumulated depreciation, and the carrying amount calculated on a net basis is revalued to fair value. Based on this method, revalued amount is equal to fair value and accumulated depreciation amounts to nil.

The costs of improvement of property and equipment are recognised on capital investments accounts.

The below table presents useful lives of certain categories of property and equipment and respective depreciation rates:

Description	Useful lives, years
Buildings and constructions	33,33
Machinery and equipment	4-15
Transport vehicles	10
Fixtures and fittings (furniture)	4-10
Other property and equipment	2-10

Depreciation is charged on a straight-line basis over the estimated useful lives of individual assets. In 2016, there were no changes in depreciation method and useful lives.

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

Expenditures incurred for operating leasehold improvements are charged over the period starting from the month following the month of completion of improvements and ending in the last month of the lease term, or, if the economic life of a leasehold improvement is shorter than the applicable lease, depreciation is charged over the economic life of the leasehold improvement.

Depreciation is discontinued on the earlier of:

– the date of transfer of the underlying asset to the category non-current assets held-for-sale; and

– the date of derecognition of the underlying asset.

Useful lives and applicable depreciation rates are reviewed at each year-end. During 2016, the Bank reviewed and made no changes in useful lives of its property and equipment.

Items of property and equipment are derecognised in case of their disposal as a result of sale, free transfer, liquidation, etc.

4.10. Intangible assets

The Bank classified within intangible assets licenses to use computer software, and acquired computer software.

Acquired intangible assets are measured at cost (historical/actual cost) including the costs incurred to acquire and bring specific items to intended use.

Subsequently, the Bank measures intangible assets at historical cost (cost), less accumulated amortisation and accumulated impairment losses.

Amortisation is charged on a straight-line basis. During 2015, there were no changes in amortisation method or useful life of intangible assets. Useful lives and amortisation rates of intangible assets are revised at each year-end and when such revisions are supported by relevant reasonable feasibility studies.

Useful lives of intangible assets and the monthly rates of amortisation of main categories of the intangible assets are specified below:

Description	Useful lives, years
Software packages and solutions	1 - 10
Licenses to use computer programs	1 - 10

Amortisation is charged on a monthly basis applying the rates calculated referring to useful life of each individual intangible asset.

4.11. Operating leases

Operating leases are the lease contracts, under which the Bank does not assume substantially all the risks and rewards of ownership to the leased assets. Operating lease agreements entitle the lessee to make use of the non-current assets during the period not exceeding their useful lives subject to their mandatory return to the lessee as provided in the underlying agreement.

Property and equipment are transferred for operating lease at carrying amounts.

Property and equipment transferred to the Bank for operating lease are carried on the Bank's balance sheet applying the same criteria as those applied to any other property and equipment belonging to the Bank.

The items leased by the Bank represent the property and equipment used to support the Bank's operations and activity.

4.12. Investment property

Investment property is property held either to earn rental income or for capital appreciation, or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value, with changes recognised in profit or loss.

If the use of investment property changes and it is reclassified to property and equipment, fair value of investment property as at the date of reclassification becomes its cost for its subsequent accounting.

As at 1 October 2016, the Bank's properties revaluation was carried out by independent certified appraiser, LLC "Kredytno Brokerske Agentstvo". At the moment of valuation, LLC "Kredytno Brokerske Agentstvo" appraiser company held required certificate required by the effective legislation of Ukraine and previous experience of valuation of similar properties.

4.13. Non-current assets held-for-sale

The Bank recognises non-current assets as held-for-sale, where their carrying value is recoverable via their sale, rather than as a result of on-going use.

Non-current assets are designated as held-for-sale subject to their compliance with the following conditions as of the date of their designation: their current condition allows their immediate sale and it is highly probable that they may be sold.

Non-current assets held-for-sale are measured and accounted for at the lower of carrying amount and fair value.

Non-current assets held-for-sale are not depreciated.

4.14. Derivative financial instruments

A derivative is a financial instrument meeting the following three criteria:

a) its value fluctuates in line with changes in effective interest rate, price of financial instrument, consumer goods price, foreign exchange rate, prices or interest rates index, credit or solvency rating or any other similar variable indicator; and

(b) it does not require initial net investments or requires initial net investments that are lower than those that would be required by other types of contracts similarly responding to changes in market condition; and

(c) it is subject to repayment on a future date.

All derivative financial instruments are initially measured and recognised at fair value. Transaction costs are recognised in expenses during their initial recognition. Transaction costs do not include any premiums or discounts stipulated under forward contracts or options.

On each balance sheet date following their initial recognition, derivative financial instruments are measured at fair value net of any transaction costs.

Financial instruments traded on stock exchanges are remeasured by the Bank based on results of each trading day (trading session) to the values equal to their quoted (settlement) prices.

Where the quotations of derivative financial instruments on active market are not available, the Bank determines their fair values using the following methods:

- by reference to a market price of another similar instrument;
- discounted cash flows analysis;
- other methods that ensure reliable measurement of fair values of derivative financial instruments.

4.15. Borrowed funds

The Bank mostly designates its own bonds to the borrowed funds category. The Bank may realise the bonds at nominal value at a discount or premium.

The Bank accrues interest and carries out amortisation of discounts (premiums) on own bonds subject to the terms and conditions of their issue at least once a month during the period from the date of placement through the date of redemption of underlying securities.

The amount of amortisation of discount (premium) for the reporting period is assessed using the effective interest method. The amount of amortisation of discount/premium on transactions with own debt securities results in higher/lower interest expenses.

The Bank can redeem own bonds both on and in advance of their maturities (if such option is stipulated by the terms and conditions of the issue). The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. In case of early redemption of a security, the Bank amortises respective part of the discount (premium) through the date of redemption.

4.16. Provisions

The Bank records provisions for liabilities and provisions for contingent liabilities.

Provisions for contingent liabilities are established to cover probable risks arising as the result of suits claiming reimbursement of losses in favour of third parties. The Bank establishes the provision in the amount required to reimburse all reasonable contingent expenses the Bank may incur under third parties' lawsuits.

The Bank recognises a provision for liabilities only to the extent all three following conditions are met:

- the Bank has a present (legal or constructive) debt as a result of past events;
- it is probable that an outflow of economic benefits will be required to settle the debt;
- the amount of the debt can be estimated reliably.

4.17. Employee benefits

Under Ukrainian legislation, the Bank withholds amounts payable by the employees to the statutory pension plan based on the earnings of the employees and transfers mandatory contributions to the Pension Fund of Ukraine. Furthermore, under the current statutory pension system requirements, employers are obliged to assess current payments as a percentage of the total current employees' remuneration. The cost for these contributions is recognised in the period when contributions are due and is included in salaries and employee benefits. Upon their retirement, employees receive retirement benefits from the State Pension Fund of Ukraine. The Bank is not a party to any other non-state retirement benefit plans or other material employee benefits plans that would require additional accruals.

The Bank records provisions for unused vacations.

4.18. Income tax

The Bank recognises its current income tax payable as a liability equal to the amount calculated for the reporting period in accordance with the tax effective laws of Ukraine. According to clause 10 subclause 4 of Section XX of the Tax Code of Ukraine, in 2015 as at 31 December 2015) and 2016 (as at 31 December 2016) the corporate income tax rate was 18%.

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the statement of financial position date plus and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and tax liabilities attributable to the same tax and payable within the same period are offset. In years when the amount of respective deductible temporary differences exceeds the amount of taxable temporary differences, respective deferred tax assets are recognised within assets in the statement of financial position under "Deferred tax assets" caption. Otherwise, in years when the amount of taxable temporary differences exceeds the amount of deductible temporary differences, resulting deferred taxes are recognised in the statement of financial position under "Deferred tax liabilities" caption.

When assessing the portion of the unused deferred tax assets and that of outstanding deferred tax liabilities that are believed to be realised in the years after the balance sheet date, the Bank analyses the degree of probability of such realization. In case the expected taxable profit does not fully offset respective taxable temporary differences, realization of which was expected in the period, the Bank recognises impairment of the deferred tax asset.

The recognised impairment loss is recognised in statement of profit or loss and other comprehensive income under "Income tax" caption.

Taxable profit expected in the future period is assessed referring to the business plan prepared by management and considering available feasible tax planning options.

4.19. Share capital and share premium

Share capital is the value of the shares/equity interests in the Bank contributed in cash by the Bank's shareholders in the amount prescribed by the Charter.

Share premium represents the surplus of the funds received from initial offering or sale of the Bank's own shares (other corporate rights) over their nominal value, or the surplus of the nominal value of the shares (other corporate rights) over their redemption value.

4.20. Recognition of income and expenses

Income and expenses are accounted for on an accrual basis, that is, they are recognised in the period to which they are attributable.

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date to the extent that the transaction result can be estimated reliably.

Interest income and expenses are recognised using the effective interest rates pro rata the time lapsed and the amount of the underlying asset (liability).

Any differences, arising between the interest income (expense) recognised using the effective interest rate and the income (expense) accrued applying the nominal interest rate on the financial instruments acquired or issued at nominal value (i.e., without any discount or premium), are recognised on the accounts of non-amortised discounts or premiums in correspondence with underlying interest income and expenses.

Commissions, not included in a loan cost (e.g. commissions for cash payments and withdrawals, etc.), are recognised within commission income.

Interest income on debt securities available-for-sale, including any discounts and premiums, are recognised using the effective interest rate.

Dividends on variable-yield securities available-for-sale are recognised as income for the reporting period during their holding.

4.21. Foreign currencies

Items of assets and liabilities, income and expenses arising from dealing in foreign currencies and precious metals are recognised in UAH equivalent at the official NBU foreign currencies and banking metals exchange rates ruling at the transaction dates.

Income and expenses on items denominated in foreign currencies are translated into Ukrainian hryvnias at the NBU exchange rate ruling as at the transaction date. Foreign currency accruals are translated into UAH at the exchange rate ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are recognised in the statement of financial position at the official NBU exchange rate ruling at the reporting date. As at 31 December, the exchange rates of UAH established by NBU were as follows:

Currency	31 December 2016	31 December 2015
US Dollar	27,19	24,00
Euro	28,42	26,22

As at the date, when financial statements were approved by Management Board, the official NBU exchange rates are USD 27,23, EUR 28,93.

All monetary items carried on the balance sheet are revaluated each time when the NBU exchange rate is revised and results are recognised within gains less losses from foreign currency translation in the statement of profit or loss and other comprehensive income.

The Bank recognises gains and losses from dealing in foreign currencies as gains/losses from foreign currency purchase, sale and exchange transactions.

4.22. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only to the extent there is a legally enforceable right to offset and there is an intention to realise the asset and settle the liability simultaneously.

4.23. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which a financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any impairment losses.

Effective interest rate represents the interest rate that exactly discounts the previously estimated ingoing and outgoing cash flows that will be generated during the expected period of life of the financial instrument or during period to the future date of revaluation of the instrument price to the net book value of the financial asset or liability. When assessing the present value, the effective interest rate is applied to the future ingoing and outgoing cash flows that will be generated during the whole period of life of the financial asset or liability or a shorter period in case of recurrence of certain conditions or circumstances (e.g. revision of market interest rates).

Subsequent to initial recognition, amortised cost makes it possible to allocate the revenues and expenses directly via the instrument cost reduction or increase on the dates of its amortisation during the whole expected period of life of the instrument. Amortised cost determined will fluctuate depending on whether the financial assets/liabilities bear fixed or floating rates and, in case of a floating rate, subject to availability of the observable date on the interest rate volatility range. As regards instruments bearing fixed or floating rates, the future cash flows are determined for certain time horizons based on the interest (fixed or floating) rates observable during the whole period of financing. As regards financial assets/liabilities bearing floating rates whose volatility indexes are unobservable, i.e. unknown in advance (e.g. when the interest rate is linked to an index), the cash flows are determined referring to the latest observable interest rate. During the whole period of life of an investment, i.e. up to its maturity date, on each date of revision of the effective interest rate, the Bank revised the applicable amortisation rate and effective interest rate. Any effects of such changes are recognised in the income statement through profit or loss.

Loans, held to maturity investments and accounts payable and securities issued are recognised at amortised cost.

4.24. Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, the Bank's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The fair value measurement framework described in IFRS 13 applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

As a result, the Bank adopted a new definition of fair value, as set out below. The change had no significant impact on the measurements of assets and liabilities.

For financial instruments, fair value is determined through the use of quoted prices obtained from active financial market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If the market for the financial instrument is not active, the Bank estimates the fair value by using a valuation technique. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

- using market inputs that are indirectly linked to the instrument being measured and are obtained from products with similar risk characteristics;
- using – even only in part – unobservable inputs that are not derived from the market, for which estimates and assumptions made by the assessor are used.

When measuring fair value, the Bank maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Banks measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1 inputs:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available. If any Level 1 inputs are available for financial instruments, some of which might be exchanged in multiple active markets the emphasis within Level 1 is on determining both of the following:

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) whether the Banks can enter into a transaction for the asset or liability at the price in that market at the measurement date.

If the Bank holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability will be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the Bank. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

If an asset or a liability measured at fair value has a bid price and an ask price the Bank use bid prices for asset positions and ask prices for liability positions.

Level 2 inputs:

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

(i) interest rates and yield curves observable at commonly quoted intervals;
(ii) implied volatilities; and
(iii) credit spreads.

(d) market-corroborated inputs.

Adjustments to Level 2 inputs can vary depending on factors specific to the asset or liability. Those factors include the following:

(a) the condition or location of the asset;

(b) the extent to which inputs relate to items that are comparable to the asset or liability; and

(c) the volume or level of activity in the markets within which the inputs are observed.

An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs:

Level 3 inputs are unobservable inputs for the asset or liability.

This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2016, the Bank categorized due from customers as Level 3 in the fair value hierarchy as valuation model uses significant unobservable inputs for fair value measuring.

The choice between the above valuation techniques is not free, but must follow a specific order of priority. Specifically, if quoted prices in active markets are available, as a rule the other valuation approaches cannot be used. IFRS 13 describes three different valuation techniques that may be used to measure fair value (which would be applied for Level 2 and Level 3 hierarchy based on the inputs used in the valuation techniques):

- Market Approach: uses prices comparison and other relevant information from market transaction involving identical or similar assets or liabilities.
- Income approach: converts future amounts (e.g. cash flows or income and expenses) to a single current (discounted) amount reflecting current market expectations about those future amounts.
- Cost approach: reflects the amount required currently to replace the service capacity of an asset (frequently) referred to a current replacement cost, which differs from the cost incurred).

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, this will result in more than one technique being used.

Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

(a) new markets develop;

(b) new information becomes available;

(c) information previously used is no longer available;

(d) valuation techniques improve;

(e) market conditions change.

The Bank has formalized Market Risk Management Policy that defines the principles and tools used for the assessment, control and management of fair value, and establish the overall responsibility for measurement of fair value to Risk Management Division that is independent from operational function.

As at 31 December 2016, fair value measurement was applied to land plots and buildings appraised by an independent entity at the end of the year applying the comparable sales method or income capitalisation to property and cost approach to certain infrastructure objects or specialised property with limited market information.

4.25. Operating segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

The Bank has no customers generating individually revenues in excess of 10% of its total external revenues.

Substantially all revenues from external customers are generated from services to customers that are Ukrainian residents. Substantially all assets of the Bank are located in Ukraine.

Note 5. New and amended standards

The following new Standards, *amendments to Standards* and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

  Classification and measurement

  IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

  IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

  - the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
  - the remaining amount of change in the fair value is presented in profit or loss.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ('12-month ECL') or expected credit losses resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Initial amount of expected credit losses recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognized are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Group does not intend to adopt the standard earlier.

The Bank has not started a formal assessment of potential impact on its financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Bank's financial statements. Currently the Bank is in the process of development of IFRS 9 implementation plan.

- IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces the existing revenue recognition guidance, including, IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.
- IFRS 16 Leases replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

The following new or amended standards are not expected to have significant impact on the consolidated financial statements of the Bank:

- Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-Based Payment*)

The Bank has not yet analysed the impact of the new standards on its financial position and performance.

Amendments to IFRS are considered on a standard-by-standard basis. All amendments resulting in accounting amendments regarding disclosures, recognition and calculation will not come into effect before 1 January 2017.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

(in thousands of Ukrainian hryvnias))

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Cash on hand	260 265	259 430
2	Provision for cash balances located on temporarily occupied territories	(1 487)	(1 428)
3	Balances with the National Bank of Ukraine	76 169	8 205
4	Correspondent accounts with:	582 744	173 917
4.1	domestic banks	6 341	3 894
4.2	foreign banks	576 403	170 023
5	**Total cash and cash equivalents**	**917 691**	**440 124**

Line 6 in Table 6.1 corresponds to Cash and cash equivalents in the Statement of financial position.

In accordance with Resolution No. 820 of the Management Board of the National Bank of Ukraine dated 18 December 2014 “On Modification of the Procedure for Establishment and Safekeeping of Mandatory Provisions”, the Bank transfers and keeps the mandatory reserves on the correspondent account with the National Bank of Ukraine according to the ratios in effect during respective holding period. As at 31 December 2015, the statutory amount of the mandatory reserve was UAH 62,950 thousand. In addition, the banks are allowed to use assets recognized in lines 1, 2, and 3 of table in Note 6 to establish the mandatory reserves to be held on the correspondent account with the National Bank of Ukraine.

Starting from 10 January 2016, the NBU amended certain requirements to the mandatory reserves. In accordance with Resolution No. 893 of the Management Board of the National Bank of Ukraine dated 17 December 2015 “On amendments to Resolution No. 820 of the Management Board of the National Bank of Ukraine dated 18 December 2014”, Banks transfer and keep the mandatory reserves on the correspondent account with the National Bank of Ukraine. As at 31 December 2016, the statutory amount of the mandatory reserve was UAH 70,171 thousand. Mandatory reserves with the NBU are calculated in compliance with the NBU’s requirements and are restricted for use. Other balances in the accounts with the NBU represent balances of cash and settlements transactions and are not restricted for use.

As at 31 December 2016, placement in the correspondent account with Intesa Sanpaolo S.p.A. amount to UAH 452 478 thousand (2015 – UAH 110,209 thousand), representing a significant concentration.

As at 31 December 2016 and 2015, balances in correspondent accounts were neither overdue, nor impaired.

As at 31 December 2016 and 2015, the Bank recognized provision for the balances located in Donetsk region (31 December 2015: UAH 13 thousand, 31 December 2016: UAH 13 thousand), Luhansk region (31 December 2015: UAH 1,307 thousand, 31 December 2016: UAH 1,366 thousand), and in Autonomous Republic of Crimea (31 December 2015: UAH 108 thousand, 31 December 2016: UAH 108 thousand).

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

(in thousands of Ukrainian hryvnias))

Line	Description	2016	2015
1	**2**	**3**	**4**
1	Corporate shares	-	2 633
2	**Total other financial assets at fair value through profit or loss**	**-**	**2 633**

Line 2 in Note 7 corresponds to Financial assets at fair value through profit or loss in the Statement of financial position.

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers

(in thousands of Ukrainian hryvnias))

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Loans to corporate customers	681 097	650 162
2	Loans to entrepreneurs	31	468
3	Retail mortgage loans	971 228	1 081 379
4	Retail consumer loans	1 196 639	2 043 870
5	Other retail loans	23 851	21 472

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
6	Provision for impairment	(1 890 597)	(1 971 066)
7	**Total loans less provisions**	**982 249**	**1 826 285**

Line 7 in Table 8.1 corresponds to Loans and advances to customers in the Statement of financial position. Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2016 would be UAH 9,822 thousand lower/higher (31 December 2015: UAH 18,263 thousand).

Outstandings retail loans in Crimea (UAH 24,682 thousand), Donetsk region (UAH 6,895 thousand), and Luhansk region (UAH 7,024 thousand) are fully provided for.

Line 7, Total loans less provisions, as at 31 December 2015 includes loan balances less provisions in the outlets located on temporarily occupied territories, including in Crimea (UAH 4,092 thousand of corporate loans and UAH 26,091 thousand of retail loans), Donetsk region (UAH 3,382 thousand of retail loans), and Luhansk region (UAH 1,222 thousand of retail loans).

Concentration of loans to customers

The Bank believes that potential concentration risk per customer may arise when at least 10% of net loan portfolio is attributable to a limited number of customers. As at 31 December 2016 and 2015, loans to two customers account for 14% i 13%, respectively (UAH 136,102 thousand and UAH 235,647 thousand, respectively).

Table 8.2. Movements in provisions for loan impairment during 2016

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Balance as at 01 January 2016	(120 192)	(205)	(504 808)	(1 326 083)	(19 778)	(1 971 066)
2	(Increse)/decrease in provision for impairment during the period	(7 993)	174	(355 361)	(229 630)	(3 060)	(595 870)
3	Bad debt written off against provision	54 903	-	96 775	613 142	26	764 846
4	Interest accrued on impaired loans	478	-	3 827	62 888	-	67 193
5	Foreign exchange differences	786	-	(6 801)	(149 659)	(26)	(155 700)
6	**Balance as at 31 December 2016**	**(72 018)**	**(31)**	**(766 368)**	**(1 029 342)**	**(22 838)**	**(1 890 597)**

Line 2 in Table 8.2 corresponds to Net increase in provisions for impairment of loans and advances to customers, and due from banks in the Statement of profit or loss and other comprehensive income. The difference between the amount shown in Net increase in provisions for impairment of loans and advances to customers, and due from banks in the Statement of profit or loss and other comprehensive income, and the amount in line 2 of Table 8.2 represents the bad debt written off against provision in the prior reporting periods and repaid as at 31 December 2016 (UAH 30,747 thousand) and during 2015 (UAH 37,580 thousand).

Table 8.3. Movements in provisions for loan impairment during 2015

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Balance as at 01 January 2015	(273 713)	(131)	(490 973)	(1 994 148)	(25 148)	(2 784 113)
2	Increse in provision for impairment during the period	(83 024)	(74)	(111 129)	(394 924)	(1 670)	(590 821)
3	Bad debt written off against provision	295 003	-	279 141	1 414 784	7 976	1 996 904
4	Interest accrued on impaired loans	22 535	-	30 337	112 362	-	165 234
5	Foreign exchange differences	(80 993)	-	(212 184)	(464 157)	(936)	(758 270)
6	**Balance as at 31 December 2015**	**(120 192)**	**(205)**	**(504 808)**	**(1 326 083)**	**(19 778)**	**(1 971 066)**

Table 8.4. Loans by economic sector

(in thousands of Ukrainian hryvnias)

Line	Sector	31.12.2016		31.12.2015	
1	2	3	4	5	6
1	Production and distribution of electricity, gas and water	1	0,01%	16 159	0,43%
2	Real estate operations, leasing, engineering and provision of services	2 898	0,10%	29 211	0,77%
3	Trade, repair of vehicles, household equipment, and items of personal use	145 135	5,05%	227 733	6,00%
4	Agriculture, hunting, and forestry	126 757	4,41%	164 702	4,34%
5	Processing industry	406 336	14,14%	212 415	5,58%
6	Individuals	2 191 718	76,28%	3 146 721	82,87%
7	Other	1	0,01%	410	0,01%
8	**Total loans and advances to customers less provisions**	**2 872 846**	**100,00%**	**3 797 351**	**100,00%**

The table below shows an analysis of gross exposure by type of collateral.

Table 8.5. Loans by type of collateral in 2016

The table below presents loans secured with collateral rather than fair value of the collateral.

(in thousands of Ukrainian hryvnias)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Unsecured loans	2 867	-	968	49 000	23 851	76 686
2	Loans secured by:	678 230	31	970 260	1 147 639	-	2 796 160
2.1	real estate	470 080	-	970 260	732 722	-	2 173 062
2.1.1	non-residential mortgage	469 164	-	6 177	176 646	-	651 987
2.1.2	land	915	-	58 236	339 273	-	398 424
2.1.3	residential mortgage	1	-	905 847	216 803	-	1 122 651
2.2	Other assets	208 150	31	-	414 917	-	623 098
2.2.1	equipment	41 415	-	-	-	-	41 415
2.2.2	inventory	166 734	-	-	-	-	166 734
2.2.3	vehicles	1	31	-	414 917	-	414 949
3	**Total gross exposure**	**681 097**	**31**	**971 228**	**1 196 639**	**23 851**	**2 872 846**

Table 8.6. Loans by type of collateral in 2016

The table below presents loans secured with collateral rather than fair value of the collateral .

(in thousands of Ukrainian hryvnias)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Unsecured loans	66 517	-	18	45 177	21 472	133 184
2	Loans secured by:	583 645	468	1 081 361	1 998 693	-	3 664 167
2.1	cash	67 018	-	-	510	-	67 528
2.2	real estate	402 912	224	1 081 361	1 404 607	-	2 889 104
2.2.1	non-residential mortgage	287 731	28	6 690	657 453	-	951 902
2.2.2	land	102 623	-	8 951	283 730	-	395 304
2.2.3	residential mortgage	12 558	196	1 065 720	463 424	-	1 541 898
2.3	Other assets	113 715	244	-	593 576	-	707 535
2.3.1	equipment	33 967	-	-	-	-	33 967
2.3.2	inventory	79 631	-	-	-	-	79 631
2.3.3	vehicles	117	244	-	593 576	-	593 937
3	**Total gross exposure**	**650 162**	**468**	**1 081 379**	**2 043 870**	**21 472**	**3 797 351**

Table 8.7. Analysis of loan portfolio quality for 2016

(in thousands of Ukrainian hryvnias)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Short-term not impaired loans:	574 169	-	174 773	101 222	981	851 145
1.1.	Large borrowers with credit history over 2 years	239 618	-	-	-	-	239 618
1.2.	New large borrowers	165 181	-	-	-	-	165 181
1.3.	Loans to medium-size businesses	169 370	-	-	-	-	169 370
1.4.	Other retail loans	-	-	174 773	101 222	981	276 976
2	Overdue, but not impaired:	-	-	16 582	11 886	48	28 516
2.1.	less than 30 days	-	-	9 173	7 256	38	16 467
2.2.	31 - 90 days	-	-	7 409	4 630	10	12 049
3	Overdue and impaired:	106 928	31	779 873	1 083 531	22 822	1 993 185
3.1.	less than 30 days	73 453	-	10 747	6 506	-	90 706
3.2.	31 - 90 days	-	-	119	151	-	270
3.3.	91 - 180 days	-	-	5 797	2 292	11	8 100
3.4.	181 - 360 days	-	-	15 730	2 444	85	18 259
3.5.	more than 361 days	33 475	31	747 480	1 072 138	22 726	1 875 850
4	Gross loans	681 097	31	971 228	1 196 639	23 851	2 872 846
5	*Provision for impairment*	(72 018)	(31)	(766 368)	(1 029 342)	(22 838)	(1 890 597)
6	**Total loans less provisions**	**609 079**	-	**204 860**	**167 297**	**1 013**	**982 249**

Table 8.8. Analysis of loan portfolio quality for 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Short-term not impaired loans:	440 625	214	217 936	191 564	1 063	851 402

(in thousands of Ukrainian hryvnias)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1.1.	Large borrowers with credit history over 2 years	249 067	-	-	-	-	249 067
1.2.	New large borrowers	63 649	-	-	-	-	63 649
1.3.	Loans to medium-size businesses	126 186	-	-	-	-	126 186
1.4.	Loans to small businesses	1 723	214	-	-	-	1 937
1.5.	Other retail loans	-	-	217 936	191 564	1 063	410 563
2	Overdue, but not impaired:	1	27	24 858	17 649	616	43 151
2.1.	less than 30 days	1	27	11 989	11 178	199	23 394
2.2.	31 - 90 days	-	-	12 869	6 471	417	19 757
3	Overdue and impaired:	209 536	227	838 585	1 834 657	19 793	2 902 798
3.1.	less than 30 days	112 243	196	8 373	17 783	-	138 595
3.2.	31 - 90 days	7 944	-	403	7 305	-	15 652
3.3.	91 - 180 days	-	-	15 603	10 253	101	25 957
3.4.	181 - 360 days	24 039	-	90 839	7 336	17	122 231
3.5.	more than 361 days	65 310	31	723 367	1 791 980	19 675	2 600 363
4	Gross loans	650 162	468	1 081 379	2 043 870	21 472	3 797 351
5	*Provision for impairment*	(120 192)	(205)	(504 808)	(1 326 083)	(19 778)	(1 971 066)
6	**Total loans less provisions**	**529 970**	**263**	**576 571**	**717 787**	**1 694**	**1 826 285**

Table 8.9 Credit exposure and financial effect of collateral value

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests corporate borrowers to provide it.

As at 31 December 2016, loans to customers were secured with collateral value:

(in thousands of Ukrainian hryvnias)

Line	Descripion	Loans to customers, carrying amount	Value of collateral
1	2	3	4
1	Short-term not impaired loans	834 080	347 402
2	Overdue, but not impaired	26 024	11 904
3	Impaired loans	122 145	86 832
4	**Total loans**	**982 249**	**446 138**

As at 31 December 2015, loans to customers were secured with collateral value:

(in thousands of Ukrainian hryvnias)

Line	Descripion	Loans to customers, carrying amount	Value of collateral
1	2	3	4
1	Short-term not impaired loans	816 698	582 225
2	Overdue, but not impaired	40 396	37 707
3	Impaired loans	969 191	938 123
4	**Total loans**	**1 826 285**	**1 558 055**

As at 31 December 2016, loans to customers were secured with:

- cash deposits amounting to UAH 0 (31 December 2015: 65,998 тис. грн.),

- real estate and land plots with the fair value of UAH 446,101 thousand (31 December 2015: 1,149,453 thousand),

- vehicles with the fair value of UAH 36 thousand(31 December 2015: 319,547 thousand),

- equipment and other collateral with the fair value of UAH 0 thousand (31 December 2015: 23,057 thousand)

Information disclosed in the tables above is based on Weighted Collateral Value (WCV), which is equal to fair value discounted according to internal Bank's policies. Value of collateral reflects the amount the Bank expects to receive in case of forced collateral realization. In calculation of WCV the Bank takes the value of collateral for each loan agreement based on the lower of carrying value of loans and value of collateral so that to exclude the effect of overcollateralization. For different types of collateral different discounts are applied according to the Bank’s policies.

The more valuable collateral is used for assessment for loans that are collaterised by several types of collateral. Third party guarantees are not includedfor the purposes of loan impairment assessment.

The possibility of loan collection for Short-term not impaired loans depends more on the creditworthiness of borrower, rather then collateral value.

Note 9. Securities available-for-sale

Table 9.1 Securities available-for-sale

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Debt securities:	1 692 928	1 813 140
1.1	certificates of deposit of the National Bank of Ukraine	1 692 928	1 813 140
2	Corporate shares and other variable income securities:	34	34
2.1	measured at cost (fair value cannot be reliably measured)	34	34
3	Provision for impairment of securities available-for-sale	(31)	(31)
4	**Total securities available-for-sale less provision**	**1 692 931**	**1 813 143**

Line 4 in Table 9.1 corresponds to Securities available-for-sale in the Statement of financial position.

Certificates of deposit of the National Bank of Ukraine classified as securities available for sale have the following terms as at 31 December 2016: nominal interest rate is 13%-15%, maturity varies from 2 to 14 days (31 December 2015: nominal interest rate is 19%-21% and maturity varies from 5 to 86 days).

Table 9.2. Credit quality analysis of debt securities available-for-sale for 2016

(in thousands of Ukrainian hryvnias)

Line	Description	NBU's certifictes of deposit	Total
1	**2**	**3**	**4**
1	Not overdue and not impaired:	1 692 928	1 692 928
1.1	government institutions	1 692 928	1 692 928
2	**Total debt securities available-for-sale**	**1 692 928**	**1 692 928**

Table 9.3. Credit quality analysis of debt securities available-for-sale for 2015

(in thousands of Ukrainian hryvnias)

Line	Description	NBU's certificates of deposit	Total
1	**2**	**3**	**4**
1	Not overdue and not impaired:	1 813 140	1 813 140
1.1	government institutions	1 813 140	1 813 140
2	**Total debt securities available-for-sale**	**1 813 140**	**1 813 140**

Table 9.4. Movement in provision for impairment of securities available-for-sale during 2016

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Corporate shares	Total
1	**2**	**3**	**4**
1	Balance as at 1 January 2016	(31)	(31)
2	Increase in provision for impairment during the period	-	-
3	**Balance as at 31 December 2016**	**(31)**	**(31)**

Table 9.5. Movement in provision for impairment of securities available-for-sale during 2015

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Corporate shares	Total
1	**2**	**3**	**4**
1	Balance as at 1 January 2015	-	-
2	Increase in provision for impairment during the period	(31)	(31)
3	**Balance as at 31 December 2015**	**(31)**	**(31)**

Table 9.6. Major investments in shares and other variable income securities available-for-sale

(in thousands of Ukrainian hryvnias)

Line	Company	Activity	Country of incorporation	Measured at cost (fair value cannot be reliably measured)	
				2016	2015
1	2	3	4	5	6
1	CJSC Crimean Stock Exchange	Financial market management	Ukraine	11	11
2	CJSC Ukrainian Inter-Bank Currency Exchange	Financial market management	Ukraine	2	2
3	Crimean Inter-Bank Currency Exchange	Financial market management	Ukraine	20	20
4	UCE “UICE Contracting House”	Financial market management	Ukraine	1	1
5	**Total**			**34**	**34**

Note 10. Investment property

Table 10.1. Investment property measured at fair value

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	2	3	4
1	Fair value of investment property at the beginning of the year	112 914	13 558
2	Transfer to owner occupied buildings category	-	(5 866)
3	Transfer from non-current assets held-for-sale and disposal group assets	75 486	104 247
4	Transfer from buildings category	2 007	-
5	Fai value revaluation gain (loss)	(14 101)	975
6	**Fair value of investment property as at 31 December**	**176 306**	**112 914**

Line 6 in Table 10.1 corresponds to Investment property in the Statement of financial position

Fair value of investment property items was determined to be equal to the market value net of value added tax. The targets’ market value was appraised applying the comparison approach (method of adjustment of similar property value).

Investment property includes collateral foreclosed by the Bank. Certain investment property items amounting to UAH 50,355 thousand as at 31 December 2016 are subject to immediate sale restrictions due to administrative proceedings. The Bank believes that all restrictions will be lifted.

Table 10.2. Amounts recognised in the Statement of profit or loss and other comprehensive income

(in thousands of Ukrainian hryvnias)

Line	Income and expenses	2016	2015
1	2	3	4
1	Rental income from investment property	-	897
2	Other direct costs related to property generating no rental income	-	(46)

Note 11. Property, equipment and intangible assets

Property, equipment and intangible assets are summarised as follows :

(in thousands of Ukrainian hryvnias)

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
1	**Carrying value as at 1 January 2015**	**218**	**301 583**	**51 722**	**3 822**	**1 653**	**335**	**118**	**27 429**	**200 338**	**587 218**
1.1	Historical (revalued) cost	218	306 724	205 974	10 744	10 016	4 975	33 215	27 429	325 164	924 459
1.2	Depreciation/ amortisation as at 1 January 2015	-	(5 141)	(154 252)	(6 922)	(8 363)	(4 640)	(33 097)	-	(124 826)	(337 241)
2	Additions	-	-	-	-	-	-	-	25 131	-	25 131
3	Property, equipment and intangible assets put into operation	-	-	628	-	94	-	-	(22 944)	22 222	-
4	Improvements of property, equipment and intangible assets	-	125	484	28	-	-	-	(16 599)	15 962	-
5	Transfers to disposal group assets	-	(3 062)	-	-	-	-	-	-	-	(3 062)
6	Disposals at historical (revalued) cost	-	(5 188)	(14 881)	-	(1 250)	(651)	(12 860)	(6 197)	(663)	(41 690)
7	Disposals (accumulated depreciation)	-	169	12 783	-	1 204	631	12 819	-	591	28 197
8	Depreciation charge	-	(14 741)	(13 946)	(931)	(654)	(185)	(45)	-	(40 668)	(71 170)
9	Revaluation	(15)	75 585	-	-	-	-	-	-	-	75 570
9.1	Revaluation of historical cost	(15)	60 915	-	-	-	-	-	-	-	60 900
9.2	Revaluation of depreciation	-	14 670	-	-	-	-	-	-	-	14 670

(in thousands of Ukrainian hryvnias)

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Construction in progress	Intangible assets	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
10	Other	-	5 866	-	-	-	-	-	-	-	5 866
11	**Carrying value as at 31 December 2015 (1 January 2016)**	**203**	**360 337**	**36 790**	**2 919**	**1 047**	**130**	**32**	**6 820**	**197 782**	**606 060**
11.1	Historical (revalued) cost	203	365 331	192 206	10 773	8 846	4 337	20 356	6 820	362 684	971 556
11.2	Depreciation/ amortisation as at 31 December 2015 (1 January 2016)	-	(4 994)	(155 416)	(7 854)	(7 799)	(4 207)	(20 324)	-	(164 902)	(365 496)
12	Additions	-	-	-	3	-	-	-	11 475	-	11 478
13	Property, equipment and intangible assets put into operation	-	2 008	1 578	-	253	31	-	(9 732)	5 862	-
14	Improvements of property, equipment and intangible assets	-	680	284	550	-	-	-	(4 293)	2 779	-
15	Disposals at historical cost	-	(27 393)	(13 374)	(478)	(1 196)	(810)	(1 782)	(128)	(2 004)	(47 165)
16	Disposals (accumulated depreciation)	-	737	12 197	443	1 161	810	1 782	-	2 003	19 133
17	Depreciation charge	-	(17 786)	(10 678)	(903)	(430)	(79)	(21)	-	(38 497)	(68 394)
18	Impairment losses	-	(6 852)	-	-	-	-	-	(613)	-	(7 465)
19	Write down	18	(26 021)	-	-	-	-	-	-	-	(26 003)
19.1	Write down of historical cost	18	(42 899)	-	-	-	-	-	-	-	(42 881)
19.2	Revaluation of depreciation	-	16 878	-	-	-	-	-	-	-	16 878
20	Other	-	(2 008)	-	-	-	-	-	-	-	(2 008)

(in thousands of Ukrainian hryvnias)

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
21	**Carrying value as at 31 December 20156**	**221**	**283 702**	**26 797**	**2 534**	**835**	**82**	**11**	**3 529**	**167 925**	**485 636**
21.1	Historical (revalued) cost	221	288 336	180 692	10 848	7 903	3 558	18 574	3 529	369 323	882 984
21.2	Depreciation/ amortisation as at 31 December 2016	-	(4 634)	(153 895)	(8 314)	(7 068)	(3 476)	(18 563)	-	(201 398)	(397 348)

As at 31 December 2016 and 2015, there are no property, equipment and intangible assets that are:

- legally restricted for ownership, use, and disposal;
- pledged;
- temporarily not in use (reserve, reconstruction);
- withdrawn from use; and
- constructed internally by the Bank.

As at 31 December 2016, historical (revalued) cost of fully depreciated/amortized property, equipment, intangible assets, and other non-current assets amounts to UAH 195,383 thousand (2015: 197,783 thousand), including:

- property and equipment: UAH 108,337 thousand (2015: UAH 111,104 thousand)
- intangible assets: UAH 68,589 thousand (2015: UAH 66,356 thousand)
- other non-current assets: UAH 18,457 thousand (2015: UAH 20,323 thousand)

The comparison approach is based on the analysis of the results of comparable sales of similar property. For each item, three to five comparables were selected based on the following criteria: location, type, condition, area, etc.

Note 12. Other financial assets

Table 12.1. Other financial assets

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Due from customers	14 835	13 688
2	Amounts due on accrued income from cash and settlement services and other accrued income	3 024	3 853
3	Accounts receivable on credit and debit card operations	19 066	30 888
4	Other	5 602	3 755
5	Provision for impairment	(10 878)	(10 791)
6	**Total other financial assets less provisions**	**31 649**	**41 393**

Table 12.2. Movements in provision for impairment of other financial assets during 2016

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Due from customers	Amounts due on overdue accrued income from cash and settlement services, and other accrued income	Amounts due on transaction with banks	Other	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance as at 1 January 2016	(10 320)	(177)	-	(294)	(10 791)
2	(Increase)/decrease in provision for impairment during the year	1 264	(480)	(932)	(126)	(274)
3	Bad debts written off	126	104	-	3	233
4	Foreign exchange differences on provisions	(46)	-	-	-	(46)

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Due from customers	Amounts due on overdue accrued income from cash and settlement services, and other accrued income	Amounts due on transaction with banks	Other	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
5	**Balance as at 31 December 2016**	**(8 976)**	**(553)**	**(932)**	**(417)**	**(10 878)**

Total of Line 2 balances in Table 12.2 and Table 13.2 presents Net (increase) in provision for impairment of accounts receivable and other financial assets in the Statement of profit or loss and other comprehensive income. The difference of UAH 16 thousand between the amount of Net (increase) in provision for impairment of accounts receivable and other financial assets in the Statement of profit or loss and other comprehensive income and total of Line 2 balances in Table 12.2 and Table 13.2 comprises bad debt written off against the provision for bad debt during prior reporting periods and recovered during 2016.

Table 12.3. Movements in provision for impairment of other financial assets during 2015

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Due from customers	Amounts due on overdue accrued income from cash and settlement services, and other accrued income	Other	Total
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January 2015	(2 636)	(190)	(864)	(3 690)
2	(Increase)/decrease in provision for impairment during the year	(8 623)	(51)	570	(8 104)
3	Bad debts written off against the provision	1 437	64	-	1 501
4	Foreign exchange differences on provisions	(498)	-	-	(498)
5	**Balance as at 31 December 2015**	**(10 320)**	**(177)**	**(294)**	**(10 791)**

Total of Line 2 balances in Table 12.2 and Table 13.2 presents to Net (increase) in provision for impairment of accounts receivable and other financial assets in the Statement of profit or loss and other comprehensive income. The difference of UAH 30 thousand between the amount of Net (increase) in provision for impairment of accounts receivable and other financial assets in the Statement of profit or loss and other comprehensive income and total of Line 2 balances in Table 12.2 and Table 13.2 comprises bad debt written off against the provision for bad debt during prior reporting periods and recovered during 2015.

Table 12.4. Credit quality of other financial assets in 2016

(in thousands of Ukrainian hryvnias)

Line	Description	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit card operations	Cash restricted for use	Amounts due on transactions with banks	Cash collected from self-servicing machines	Other	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1	Not overdue and not impaired accounts receivable:	5 812	1 713	19 066	219	-	3 154	43	30 007
1.1	Corporate customers	-	1 713	-	219	-	3 154	43	5 129
1.2	Individuals	5 812	-	19 066	-	-	-	-	24 878
2	Overdue, but not impaired accounts receivable:	-	97	-	-	-	-	-	97
2.1	Overdue up to 31 days	-	97	-	-	-	-	-	97
3	Accounts receivable with specific impairment:	9 023	1 214	-	-	932	-	1 254	12 423
3.1	Overdue up to 31 days	33	978	-	-	-	-	1 047	2 058
3.2	Overdue 32 to 92 days	42	29	-	-	-	-	-	71
3.3	Overdue 93 to 183 days	-	75	-	-	-	-	-	75
3.4	Overdue 184 to 365 (366) days	234	106	-	-	932	-	8	1 280
3.5	Overdue more than 366 (367) days	8 714	26	-	-	-	-	199	8 939
4	Other financial assets, gross	14 835	3 024	19 066	219	932	3 154	1 297	42 527
5	Provision for impairment of other financial assets	(8 976)	(553)	-	-	(932)	-	(417)	(10 878)
6	**Total other financial assets less provisions**	**5 859**	**2 471**	**19 066**	**219**	**-**	**3 154**	**880**	**31 649**

Table 12.5. Credit quality of other financial assets in 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit card operations	Cash restricted for use	Other	Total
1	2	3	4	5	6	7	8
1	**Not overdue and not impaired accounts receivable:**	**3 348**	**3 123**	**30 888**	**3 459**	**1**	**40 819**
1.1	Corporate customers	-	3 123	-	-	-	**3 123**
1.2	Individuals	3 348	-	30 888	-	1	**34 237**
1.3	Savings account with the National Bank of Ukraine	-	-	-	3 459	-	**3 459**
2	**Overdue, but not impaired accounts receivable:**	**-**	**442**	**-**	**-**	**-**	**442**
2.1	Overdue up to 31 days	-	442	-	-	-	**442**
3	**Accounts receivable with specific impairment:**	**10 340**	**287**	**-**	**-**	**296**	**10 923**
3.1	Overdue up to 31 days	-	61	-	-	-	**61**
3.2	Overdue 32 to 92 days	8	107	-	-	2	**117**
3.3	Overdue 93 to 183 days	80	38	-	-	1	**119**
3.4	Overdue 184 to 365 (366) days	8 002	56	-	-	-	**8 058**
3.5	Overdue more than 366 (367) days	2 250	25	-	-	293	**2 568**
4	**Other financial assets, gross**	**13 688**	**3 852**	**30 888**	**3 459**	**297**	**52 184**
5	Provision for impairment of other financial assets	(10 320)	(177)	-	-	(294)	**(10 791)**
6	**Total other financial assets less provisions**	**3 368**	**3 675**	**30 888**	**3 459**	**3**	**41 393**

Note 13. Other assets

Table 13.1. Other assets

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Accounts receivable on purchase of assets	985	1 411
2	Prepaid services	11 316	22 280
3	Precious metals	30 824	34 130
4	Taxes recoverable, other than income tax	259	5 424
5	Other	2 357	1 329
6	Provision for precious metals and other assets	(487)	(503)
7	**Total other assets less provision**	**45 254**	**64 071**

Line 7 in Table 13.1 corresponds to Other assets in the Statement of financial position.

Table 13.2. Movement in provision for impairment of other assets during 2016

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Accounts receivable on purchase of assets	Prepaid services	Total
1	**2**	**3**	**4**	**5**
1	Balance as at 1 January 2016	(74)	(186)	(260)
2	Decrease/(increase) in provision for impairment during the year	32	(16)	16
3	Bad debt written off	-	59	59
4	Foreign exchange differences on provisions	-	-	-
5	**Balance as at 31 December 2016**	**(42)**	**(143)**	**(185)**

Table 13.3. Movement in provision for impairment of other assets during 2015

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Accounts receivable on purchase of assets	Prepaid services	Total
1	**2**	**3**	**4**	**5**
1	Balance as at 1 January 2015	(5)	(338)	(343)
2	(Increase)/decrease in provision for impairment during the year	(69)	150	81
3	Bad debt written off	-	2	2
4	Foreign exchange differences on provisions	-	-	-
5	**Balance as at 31 December 2015**	**(74)**	**(186)**	**(260)**

Table 13.4. Movement in provision for impairment of unconfirmed precious metals during 2016

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Precious metals	Total
1	**2**	**3**	**4**
1	Balance as at 1 January 2016	(243)	(243)
2	Decrease/increase in provision for impairment during the year	-	-
3	Foreign exchange differences on provisions	(59)	(59)
4	**Balance as at 31 December 2016**	**(302)**	**(302)**

Table 13.5. Movement in provision for impairment of unconfirmed precious metals during 2015

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Precious metals	Total
1	**2**	**3**	**4**
1	**Balance as at 1 January 2015**	**-**	**-**
2	Increase in provision for impairment during the year	(243)	(243)
3	Foreign exchange differences on provisions	-	-
4	**Balance as at 31 December 2015**	**(243)**	**(243)**

Note 14. Non-current assets held-for-sale

Table 14.1. Non-current assets held-for-sale

(in thousands of Ukrainian hryvnias)

Line	Description	2016	2015
1	**2**	**3**	**4**
1	Non-current assets held-for-sale:	-	32 525
1.1	Property and equipment	-	1 408
1.2	Other	-	31 117
2	**Total non-current assets held-for-sale**	-	**32 525**

Line 2 in Table 14.1 corresponds to Non-current assets held-for-sale in the Statement of financial position.

Table 14.2. Sale of assets and liabilities included within a disposal group

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Property and equipment	-	1 408
2	Other assets	-	31 117
3	Proceeds from property and equipment sold	-	3 220
4	Proceeds from other assets sold	26 000	9 257

Note 15. Due to banks

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Correspondent accounts and overnight deposits	24	38
2	**Loans**	42 036	**24 022**
2.1	Short-term loans	42 036	24 022
3	**Total due to banks**	**42 060**	**24 060**

Line 3 in Note 15 corresponds to Due to banks in the Statement of financial position.

Line 2, Loans, includes accrued expenses in the amount of UAH 36 thousand during 2016 (2015: 22 thousand).

As at 31 December 2016 and 2015, due to banks in the amount of UAH 42,036 thousand and UAH 24,022 thousand, respectively, are due to JSC Bank Avangard and represent significant concentration.

Note 16. Due to customers

Table 16.1. Due to customers

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	2	3	4
1	Government and public organisations:	6 639	9 553
1.1	Current accounts	6 539	9 432
1.2	Term deposits	100	121
2	Other legal entities:	1 482 471	1 279 898
2.1	Current accounts	1 077 415	1 031 395
2.2	Term deposits	405 056	248 503
3	Individuals:	1 515 603	1 702 393
3.1	Current accounts	889 945	1 006 504
3.2	Term deposits	625 658	695 889
4	**Total due to customers**	**3 004 713**	**2 991 844**

Line 4 in Table 16.1 corresponds to Due to customers in the Statement of financial position.

The Bank believes that potential concentration risk may arise when at least 10% of deposits from customers (net of subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2016 and 2015, deposits of 4 and 17 Bank's customers amount to UAH 300,471 thousand UAH 299,184 thousand, respectively, representing 10% of total due to customers as at the reporting dates.

Table 16.2. Due to customers by type of activity

(in thousands of Ukrainian hryvnias)

Line	Type of activity	31.12.2016		31.12.2015	
		amount	%	amount	%
1	2	3	4	5	6
1	State authorities	94	0,01%	160	0,01%
2	Production and distribution of electricity, gas, and water	12 497	0,42%	11 034	0,37%
3	Real estate, lease, engineering and services	143 068	4,76%	209 709	7,01%
4	Trade, repair of vehicles, household equipment and items of personal use	431 057	14,34%	269 188	9,00%
5	Agriculture, hunting and forestry	15 190	0,51%	25 827	0,86%
6	Individuals	1 515 603	50,44%	1 702 393	56,90%
7	Processing industry	349 080	11,62%	223 134	7,45%
8	Financial and insurance services	277 302	9,23%	297 017	9,93%
9	Construction	62 300	2,07%	36 151	1,21%
10	Other	198 522	6,60%	217 231	7,26%
11	**Total due to customers**	**3 004 713**	**100,00%**	**2 991 844**	**100,00%**

As at 31 December 2016, guaranteed deposits amounting to UAH 13,622 thousand are pledged to secure:

- guarantees issued amounting to UAH 13,622 thousand.

As at 31 December 2015, guaranteed deposits amounting to UAH 82,032 thousand are pledged to secure:

- corporate and retail loans amounting to UAH 69,160 thousand;
- guarantees issued amounting to UAH 12,872 thousand.

Note 17. Certificates of deposit issued by the Bank

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Certificates of deposit	80 708	1
2	**Total**	**80 708**	**1**

As at 31 December 2016, line 2 in Note 17 'Debt securities issued by the Bank' comprises registered short-term (187 days) and long-term (367 days) certificates of deposit issued by the Bank in foreign currencies.

As at 31 December 2016 and 2015, the Bank has no convertible debt instruments.

Line 2 in Note 17 corresponds to Debt securities issued by the Bank in the Statement of financial position.

Note 18. Provisions for liabilities

Table 18.1. Movement in provisions for liabilities during 2016

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Credit related commitments	Tax risks	Litigation contingencies	Total
1	**2**	**3**	**4**	**5**	**6**
1	**Balance as at 1 January 2016**	1 381	5 914	3 851	11 146
2	Increase/(decrease) in provision for impairment during the year	(1 168)	-	633	(535)
3	Amounts repaid	-	-	(124)	(124)
4	Foreign exchange differences on provisions	112	-	-	112
5	**Balance as at 31 December 2016**	**325**	**5 914**	**4 360**	**10 599**

a) Litigations

As at 31 December 2016, the Bank's contingencies arising from proceedings in administrative courts and courts of general jurisdiction amount to

UAH 561 thousand on employment contract disputes;

UAH 3,799 thousand on deposit contract disputes;

b) Tax contingencies

– UAH 5,914 thousand on disputes with tax authorities

Line 2 in Table 18.1 corresponds to Net decrease/(increase) in provisions for liabilities in the Statement of profit or loss and other comprehensive income.

Line 5 in Table 18.1 corresponds to Provisions for liabilities in the Statement of financial position.

Table 18.2. Movement in provisions for liabilities during 2015

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Credit related commitments	Tax risks	Litigation contingencies	Total
1	2	3	4	5	6
1	**Balance as at 1 January 2015**	**2 517**	**14**	**62**	**2 593**
2	Increase/(decrease) in provision for impairment during the year	(282)	5 900	4 162	**9 780**
3	Amounts repaid	-	-	(373)	**(373)**
4	Foreign exchange differences on provisions	(854)	-	-	**(854)**
5	**Balance as at 31 December 2015**	**1 381**	**5 914**	**3 851**	**11 146**

a) Litigations

As at 31 December 2015, the Bank's contingencies arising from proceedings in administrative courts and courts of general jurisdiction amount to

UAH 52 thousand on employment contract disputes;

UAH 3,799 thousand on deposit contract disputes;

b) Tax contingencies

– UAH 5,914 thousand on disputes with tax authorities.

Line 2 in Table 18.2 corresponds to Net decrease/(increase) in provisions for liabilities in the Statement of profit or loss and other comprehensive income.

Line 5 in Table 18.2 corresponds to Provisions for liabilities in the Statement of financial position.

Note 19. Other financial assets

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Accounts payable to customers	68 134	90 883
2	Accounts payable to other banks	-	2 492
3	Accounts payable on debit and credit cards	1 435	2 068
4	Foreign exchange transactions	16 198	19 484
5	Accounts payable for other financial instruments	-	2
6	Other accrued liabilities	984	699
7	**Total other financial liabilities**	**86 751**	**115 628**

Line 7 in Note 19 corresponds to Other financial liabilities in the Statement of financial position

Note 20. Other liabilities

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Taxes payable, other than income tax	7 927	12 814
2	Salaries payable	10 498	15 732
3	Accounts payable for assets purchased	1 835	325
4	Deferred income	4 887	3 749

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
5	Accounts payable for software maintenance services	3 145	1 574
6	Accounts payable for services and security	8 858	7 781
7	Accounts payable for services related to bad debt recovery	3 630	1 033
8	Other	4 352	4 977
9	**Total**	**45 132**	**47 985**

Line 9 in Note 20 corresponds to Other liabilities in the Statement of financial position.

Note 21. Share capital

(in thousands of Ukrainian hryvnias)

Line	Description	Outstanding shares (thousand)	Ordinary shares	Share premium/discount	Preference shares	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Balance as at 1 January 2015**	**1 636 500**	**1 017 936**	**1 521 465**	**870**	**2 540 271**
2	Contributions for new share issue	33 104	19 201	1 981 499	-	2 000 700
3	**Closing balance as at 31 December 2015 (balance as at 1 January 2016)**	**1 669 604**	**1 037 137**	**3 502 964**	**870**	**4 540 971**
4	Contributions for new share issue	-	-	-	-	-
5	**Closing balance as at 31 December 2016**	**1 669 604**	**1 037 137**	**3 502 964**	**870**	**4 540 971**

As at 31 December 2016 and 2015, preference shares outstanding amount to 1,500 shares.

As at 31 December 2016 and 2015, the par value of the shares is UAH 0.58 per share.

Holders of preference shares have the right to:

– participate in profit distribution and receive dividends in the amount stipulated by their preference shares, notwithstanding the amount of Bank's net profit for the respective year;

- preferences stipulated by preference share issue terms as follows: holders of registered preference shares are entitled to dividends of 18% per annum, notwithstanding the amount of Bank's net profit for the respective year.

In accordance with Ukrainian legislation, distributable reserves are restricted by retained earnings reported in the statutory financial statements.

Note 22. Revaluation reserves (components of other comprehensive income)

Table 22.1. Revaluation reserve on securities available-for-sale

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
Components of comprehensive income that may be reclassified to profit or loss:			
1.	Balance as at 1 January	90	-
2	Revaluation of securities available for sale:	(110)	110
2.1	change in fair value revaluation	599	1 244
2.2	impairment	(709)	(1 134)
3	Income tax related to change in revaluation reserve on securities available for sale	20	(20)
4	**Total revaluation reserves (other comprehensive income), net of income tax**	-	**90**

Table 22.2. Movements in revaluation reserve on property and equipment

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
Components of comprehensive income that may be reclassified to profit or loss:			
1	Balance as at 1 January	315 663	240 176
2	Revaluation of property and equipment	(54 158)	66 382
2.1	change in fair value revaluation	17 555	74 186
2.2	write down of fair value	(41 008)	(2 942)
2.3	realised gain/loss on revaluation recognised in retained earnings	(30 705)	(4 862)
3	Income tax related to revaluation of property and equipment	6 080	(12 496)
4	Other adjustments	-	21 601
5	**Total revaluation reserves (other comprehensive income), net of income tax**	**267 585**	315 663

Note 23. Analysis of contractual maturities of assets and liabilities

(in thousands of Ukrainian hryvnias)

Line	Description	Notes	31 December 2016			31 December 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	917 691	-	917 691	440 124	-	440 124
2	Mandatory reserves with the NBU		70 171	-	70 171	-	-	-
3	Financial assets at fair value through profit or loss	7	-	-	-	2 633	-	2 633
4	Loans and advances to customers	8	680 075	302 174	982 249	1 388 227	438 058	1 826 285
5	Securities available-for-sale	9	1 692 931	-	1 692 931	1 813 143	-	1 813 143
6	Investment property	10	-	176 306	176 306	-	112 914	112 914
7	Current income tax receivable		1 631	-	1 631	1 489	-	1 489
8	Property, equipment and intangible assets	11	-	485 636	485 636	2 998	603 062	606 060
9	Other financial assets	12	31 649	-	31 649	41 393	-	41 393
10	Other assets	13	45 254	-	45 254	64 071	-	64 071
11	Non-current assets held-for-sale and disposal group assets	14	-	-	-	32 525	-	32 525
12	**Total assets**		**3 439 402**	**964 116**	**4 403 518**	**3 786 603**	**1 154 034**	**4 940 637**
	LIABILITIES							
13	Due to banks	15	42 060	-	42 060	24 060	-	24 060
14	Due to customers	16	2 985 445	19 268	3 004 713	2 920 506	71 338	2 991 844
15	Debt securities issued by the Bank	17	80 708	-	80 708	1	-	1
16	Deferred tax liabilities	28	-	5 890	5 890	-	16 464	16 464
17	Provisions for liabilities	18	10 599	-	10 599	11 146	-	11 146
18	Other financial liabilities	19	86 691	60	86 751	115 539	89	115 628
19	Other liabilities	20	45 132	-	45 132	47 985	-	47 985
20	**Total liabilities**		**3 250 635**	**25 218**	**3 275 853**	**3 119 237**	**87 891**	**3 207 128**

Note 24. Interest income and expense

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
	Interest income		
1	Loans and advances to customers	263 655	368 755
2	Debt securities available-for-sale	269 712	148 649
3	Due from banks	36	64
4	**Total interest income**	**533 403**	**517 468**
	Interest expense		
5	Term deposits from legal entities	(35 087)	(37 688)
6	Term deposits from individuals	(44 689)	(84 921)
7	Term deposits due to banks	(313)	(4 396)
8	Current accounts	(114 859)	(97 680)
9	Debt securities issued by the Bank	(2 107)	-
10	Other	-	(15 770)
11	**Total interest expense**	**(197 055)**	**(240 455)**
12	**Net interest income**	**336 348**	**277 013**

Line 12 in Note 24 corresponds to Net interest income in the Statement of profit or loss and other comprehensive income.

Note 25. Commission income and expense

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
	COMMISSION INCOME:		
1	Cash payments and withdrawals	174 208	137 761
2	Commission for lease of safe deposit boxes	8 940	5 698
3	Commission for consulting services	860	2 530
4	Commission for insurance broker services	8 335	12 921
5	Commission for TaxFree check payments	1 302	973
6	Dealing in securities	181	49
7	Interbank operations with plastic cards	15 311	13 331
8	Commission for dealing in non-cash foreign currency for other banks	-	2 390
9	Guarantees issued	21	119
10	Other	318	540
11	**Total commission income**	**209 476**	**176 312**
	COMMISSION EXPENSE:		
12	Cash payments and withdrawals	(18 668)	(15 233)
13	Commission for services and other commissions	(3 699)	(2 057)
14	Commission for maintenance of self-servicing machines	(21 455)	-
15	Guarantee expenses	(623)	(47 691)
16	Services provided by payment systems and operations with plastic cards	(5 387)	(5 115)
17	**Total commission expense**	**(49 832)**	**(70 096)**
18	**Net commission income**	**159 644**	**106 216**

Line 11 and Line 17 in Note 25 correspond to Commission income and Commission expense in the Statement of profit or loss and other comprehensive income.

Note 26. Other operating income

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	2	3	4
1	Operating lease	406	834
2	Penalties and fines received	12 618	2 900
3	Undrawn funds upon expiration of limitation period	10 149	7 644
4	Dividends	65	46
5	Shortages charged to responsible employees	864	1 141
6	Other operating income from subordinated debt waiver	-	7 064
7	Disposal of non-current assets held for sale	9 807	5 618
8	Disposal of property and equipment and intangible assets	12 438	8 852
9	Other	852	650
10	**Total operating income**	**47 199**	**34 749**

Line 10 in Note 26 corresponds to Other operating income in the Statement of profit or loss and other comprehensive income.

Note 27. Administrative and other operating expenses

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Personnel costs	199 750	246 018
2	Recruitment services	21 205	16 261
3	Depreciation of property and equipment	29 897	30 502
4	Amortisation of software and other intangible assets	38 497	40 668
5	Maintenance of property, equipment and intangible assets, telecommunication and other operational services	146 289	127 397
6	Operating lease	19 001	33 046
7	Cash collection and transportation	2 111	2 063
8	Services provided by payment systems on payment cards	4 608	3 585
9	Operations by self-servicing machines	34	-
10	Legal services on litigations and payments to collectors	17 815	1 271
11	Professional services	34 692	35 656
12	Marketing and advertising	3 437	1 063
13	Security	6 796	8 146
14	Taxes, other than income tax	37 055	32 545
15	Other	3 649	1 804
16	**Total administrative and other operating expenses**	**564 836**	**580 025**

Line 16 in Note 27 corresponds to Administrative and other operating expenses in the Statement of profit or loss and other operating income.

Note 28. Income tax expense

Table 28.1. Income tax expense

(in thousands of Ukrainian hryvnias)

Line	Description	2016	2015
1	**2**	**3**	**4**
1	**Current income tax**	**142**	**(182)**
2	**Change in deferred income tax resulting from:**	**4 474**	**427**
2.1	origination or reversal of temporary differences	4 474	427
2.2	increase or decrease in tax rate	-	-
3	**Total income tax expense**	**4 616**	**245**

Line 3 in Table 28.1 corresponds to Income tax expense in the Statement of profit or loss and other comprehensive income.

Table 28.2. Reconciliation of accounting loss and taxable loss

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**4**
1	Loss before tax	(592 997)	(798 761)
2	Income tax at applicable tax rate	106 739	143 777
3	Effect of permanent tax differences	2 642	3 827
4	Changes in unrecognised deferred tax assets	(109 714)	(143 777)
5	Deferred tax asset derecognized (deferred tax asset not recognized previously)	4 949	(3 582)
6	**Income tax expense**	**4 616**	**245**

Table 28.3.1 Tax effects of deferred tax assets and liabilities recognized during 2016

(in thousands of Ukrainian hryvnias)

Line	Description	Balance as at 31 December 2015	Recognised in profit or loss during the year	Recognised in other comprehensive income during the year	Balance as at 31 December 2016
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences:**				
1.1	Securities available-for-sale	(20)	-	20	-
1.2	Property, equipment, intangible assets, and investment property	(16 444)	4 474	6 080	(6 402)
2	Deferred tax asset (liability), including:	(16 464)	4 474	6 100	(5 890)
3	**Recognised deferred tax liability**	**(16 464)**	**-**	**-**	**(5 890)**

Table 28.3.2 Unrecognised deferred tax assets during 2016

(in thousands of Ukrainian hryvnias)

Line	Description	Balance as at 31 December 2015	Change in unrecognised deferred tax assets for the year	Balance as at 31 December 2016
1	**2**	**3**	**4**	**5**
1	**Tax effect of unrecognised temporary differences:**			
1.1	Tax loss carried forward	125 460	193 410	318 870
1.2	Due from banks and loans to customers	259 349	(86 043)	173 306
1.3	Provisions for liabilities	5 015	(2 705)	2 310
1.4	Other assets	-	2 146	2 146
1.5	Property, equipment, intangible assets, and investment property	(3 418)	2 906	(512)
2	**Provision for impairment of deferred tax assets**	**(386 406)**	**(109 714)**	**(496 120)**
2.1	Provision for tax loss carried forward	(125 460)	(193 410)	(318 870)
2.2	Provision for impairment of other deferred tax assets	(260 946)	83 696	(177 250)

Table 28.4.1 Tax effects of deferred tax assets and liabilities recognized during 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Balance as at 31 December 2014	Recognised in profit or loss during the year	Recognised in other comprehensive income during the year	Balance as at 31 December 2015
1	**2**	**3**	**4**	**5**	**6**

(in thousands of Ukrainian hryvnias)

Line	Description	Balance as at 31 December 2014	Recognised in profit or loss during the year	Recognised in other comprehensive income during the year	Balance as at 31 December 2015
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences:**				
1.1	Securities available-for-sale	(292)	292	(20)	(20)
1.2	Property, equipment, intangible assets, and investment property	(4 083)	135	(12 496)	(16 444)
2	Deferred tax asset (liability), including:	(4 375)	427	(12 516)	(16 464)
3	**Recognised deferred tax liability**	**(4 375)**	**-**	**-**	**(16 464)**

Table 28.4.2 Unrecognised deferred tax assets during 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Balance as at 31 December 2014	Change in unrecognised deferred tax assets for the year	Balance as at 31 December 2015
1	**2**	**3**	**4**	**5**
1	**Tax effect of unrecognised temporary differences:**			
1.1	Tax loss carried forward	185 315	(59 855)	125 460
1.2	Due from banks and loans to customers	391 858	(132 509)	259 349
1.3	Due to banks	3 855	(3 855)	-
1.4	Provisions for liabilities	6 205	(1 190)	5 015
1.5	Other assets	726	(726)	-
1.6	Due to customers	(151)	151	-
1.7	Property, equipment, intangible assets, and investment property	(5 244)	1 826	(3 418)
2	Provision for impairment of deferred tax assets	(582 564)	196 158	(386 406)
2.1	Provision for tax loss carried forward	(185 315)	59 855	(125 460)
2.2	Provision for impairment of other deferred tax assets	(397 249)	136 303	(260 946)

Note 29. Loss/earnings per ordinary share and preference share

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016	31.12.2015
1	**2**	**3**	**5**
1	Loss attributable to holders of ordinary shares	(588 381)	(798 516)
2	Profit attributable to holders of preference shares	157	157
3	Loss for the year	(588 381)	(798 516)
4	Annual average number of ordinary shares outstanding (in thousands of shares)	1 668 104	1 641 675
5	Annual average number of preference shares outstanding (in thousands of shares)	1 500	1 500
6	Basic and diluted (loss) per ordinary share	(0,35)	(0,49)
7	Basic and diluted earnings per preference share	0,10	0,10

Note 30. Dividends

(in thousands of Ukrainian hryvnias)

Line	Description	31.12.2016		31.12.2015	
		Ordinary shares	Preference shares	Ordinary shares	Preference shares
1	2	3	4	5	6
1	Balance as at 1 January	-	-	-	-
2	Dividends declared for payment during the year	-	313	-	-
3	Increase in reserves due to dividends	-	(313)	-	-
4	**Balance as at 31 December**	**-**	**-**	**-**	**-**

In accordance with Shareholder’s resolution No. 3/2016 dated 12 March 2016, dividends on preference shares payable for 2014 and 2015 were calculated and transferred to Bank’s reserves.

Note 31. Financial risk management

Substantially all lines of Bank’s operations are exposed to risks. To minimise these risks, the Bank has risk measurement and control system in place operating in accordance with the Bank’s internal regulations, and recommendations and requirements of the NBU. The system of internal policies of the Bank sets the framework of management systems through determination of processes, limits, functions, and responsibilities. These policies also establish risk limits and principles of risk undertaking by line of business, as well as required actions in case of exceeding limits.

Subsequent to Bank’s reorganisation, segregation of duties and responsibilities between business units and risk management subdivisions was implemented by the Bank in line with Intesa Sanpaolo S.p.A., Parent Company, practices. In addition, independent Head Office of Risk Management Department was established in the Bank.

- Head Office of Risk Management Department is responsible for:
- development and implementation of methodology and processes for determination of credit risk limits (in accordance with Parent Company’s requirements and management regulations);
- efficient assessment of risks and monitoring of loan portfolio quality;
- minimisation of losses for the Bank through appropriate measures, on a case-by-case basis, aimed at debt collection;
- identification of market and operational risks, implementation of proper procedures to ensure adequate risk minimisation.

The above functions are performed by the following subdivisions:

- Risk Management Department monitors credit, market and operational risks and reports to management of the Bank and Parent company, as well as determines loan terms and assesses risks inherent in any new product;
- Department of Underwriting oif loans aimed to ensure the proper process of authorisation of retail and corporate loans for the Bank as a whole, proper process of monitoring and pre-trial distance collection of debts under retail and corporate loans, and supports Head Business Department in development retail loan products.

The main principle underlying Head Risk Management Department’s operations consists in ensuring full segregation of duties between business units and risk management subdivisions where business units receive loan applications/products with credit risk, and the Department performs independent review and 1) takes decisions in accordance with its authority’s limits, or 2) submits the preliminary assessment report to the respective body, if the amount on loan application exceeds its authority limits.

Apart from Head Risk Management Department, monitoring and management of Bank’s risks are performed by the following Committees.

To ensure adequate level of risk while maintaining proper profitability, the Bank has Assets and Liabilities Management Committee (ALCO) and Credit Committee and the Assets Quality Committee (AQC).

The main objective of ALCO is to safeguard Bank’s capital, ensure its proper allocation, maintain proper liquidity level, with due consideration of cost and maturity profile, in compliance with the legislation, internal regulations, and the Parent Company’s guidelines.

ALCO responsibilities include:

- regular monitoring and assessment of the balance sheet structure;
- monitoring of expected profitability of existing lines of business;
- overall market assessment, competitive benchmarking of the Bank;
- approval of terms and conditions of new financial products or changes in terms and conditions of existing financial products;
- in line with Group regulations, establishment of risk management policy and risk limits to manage market, interest rate, liquidity, currency, and operational risks;
- monitoring of adherence to limits in compliance with internal regulations and external requirements.

Credit Committee is the superior body dealing with credit issues within the credit limit approved by the Supervisory Board of the Bank upon agreement with the Parent Company.

Credit Committee’s responsibilities and functions include at least the following:

- review of risk management documents on a quarterly basis;
- determine maximum risks by:

  (I) market segment;
  (II) activity;
  (III) product;
  (IV) line of business;
  (V) currency.
- discuss and approve loan offers within the limits established by the Supervisory Board; take decisions on issues to be considered by lower tiers of organisation in case of no quorum.
- address a request to the competent Credit department of Intesa Group to obtain the Consultative Conclusion with regard to loan offers which exceed the local credit limits;
- approve internal sub-delegation of credit limits and loan structure in the amount capped by the Parent Company in accordance with the Bank’s Guidelines after obtaining a permit for the credit department of the international subsidiary banks of Intesa Sanpaolo group;
- determine the management reporting forms at the local level under the Parent Company’s rules;
- approve departures (addition or change of provisions) from standard loan and guarantee agreements with regard to special loan applications (as and when required) based on the binding conclusion of the head of the underwriting legal support, finance restructuring and collection department;
- approve offers provided by authorized operational subdivisions if they go beyond the division’s delegated authority due to their urgency or timing;
- decide on other issues according to the Credit Policy and other applicable international regulatory documents within its competence;
- perform any other duties delegated by the Supervisory Board/Board.

Decisions taken by the Credit Committee within its competence are binding and are documented in the Minutes of the Credit Committee meetings. Offers are effective from the date of the Credit Committee meeting where they were approved or from the other date defined by the committee's meeting;

Minutes of the Credit Committee meetings are filed with the Head Department of Foreign Subsidiary Banks of Intesa Sanpaolo group.

Asset Quality Committee ("AQC") is a standing decision-making and consultative body. Its objective is to take necessary measures to prevent and reduce loan losses. It acts within the Bank's credit authority and under applicable law and Group regulations.

AQC has the following objectives:

- approve borrower classification subject to future consideration, and approve/reject changes and amendments thereto;
- approve proposals on forceful collection of pledged property;
- oversee "client blacklist";
- take necessary measures (strategy/ actions) regarding non-performing loans, including provisioning;
- discuss and take decisions on recording assets onto the balance sheet in the amount not exceeding the minimum established/delegated by the Supervisory Board ;
- approve internal sub-delegation of credit limits for assets with deteriorated quality loans whose quality became worse in the amount not exceeding the limit established by the Guidelines of the Parent Company upon permission from the Head Department of Foreign Subsidiary Banks of Intesa Sanpaolo group.
- assess efficiency of actions and measures with regard to non-performing loans on a regular basis;
- make proposals as to disposal of assets to be approved by the Supervisory Board;
- approve any measures found necessary by AQC to ensure timely payment of debt and avoid risk;
- propose strategy to the Supervisory Board in respect of loan provisioning to meet the head office guidance and financial restructuring requirements in all cases;
- approve and monitor the efficiency of the pre-trial debt enforcement strategy defined by the Risk Management Department;
- approve the engagement of a third party collector company proposed by the Risk Management Department in accordance with the list approved by the respective corporate body (i.e. Suparvisory Board/Management Board/Tender Committee).

Minutes of AQC meetings shall be sent to the credit department of the international subsidiary banks of Intesa Sanpaolo group .

Risk management is an essential element of the Bank's operational management. Therefore, before any major transaction is performed, it is analysed not only for risks arising from such transaction, but also for its impact on all areas of Bank's operations, specifically on the structure of assets and liabilities, financial performance, profitability, asset quality, compliance with the NBU's requirements.

Due to the fact that the Bank's operations are concentrated in retail segment, major risks inherent to Bank's operations are credit, liquidity, interest rate, and currency risks.

Credit risk

Credit risk is the risk of non-performance of credit obligations by a Bank's borrower (counterparty) (i.e. the risk of non-repayment or failure to repay the principal amount and the accrued interest when due).

Credit risk management comprises taking management decisions aimed at maximum possible income with minimum risk of loss based on quantitative and qualitative analysis of loan portfolio by line of business.

Ongoing monitoring of the loan portfolio is supported with proper control over timeliness of payments of the principal amount and interest, evaluation of borrower' financial position, and analysis of target use of loans.

Within credit risk management framework, the Bank develops the methodology of client tailored lending activity that contributes to high quality of the loan portfolio.

Credit risk management of the Bank includes the following activities:

- improvement of existing lending standards;
- monitoring and control over credit risk for potential non-recovery of loans and taking adequate decisions;
- solvency evaluation by counterparty, industry, competitor, etc.;
- segregation of duties in approving loan applications depending on the loan amount and potential risk;
- ensuring risk management function, non-performing loan function, and security function in place;
- diversification of the loan portfolio, i.e. placements with numerous counterparties operating in different industries in order to avoid simultaneous default by a significant number of counterparties, investing in different assets rather than concentrating funds in one or several instruments;
- establishment of placement limits per counterparty (concentration limits) based on counterparty's financial position and scope of operations in order to minimize losses in case of default of a specific counterparty;
- obtaining negotiable collateral for loans to reduce credit risk, involvement of an independent appraiser to valuate collateral, monitoring and revaluation of collateral, check of collateral for registration in the State Register of Pledged Property.

In order to reduce credit risk, the Bank employs different types and conditions for lending operations in terms of maturity, borrowers, security, interest rates, principles of interest accrual, limits, diversification of the loan portfolio, provisioning, monitoring and control over risks.

Assessment of individual credit risk by corporate borrower envisages preliminary solvency assessment, analysis of its financial position, of internal and external environment, assessment of market position, projection of cash flows, assessment of reliability, credit history, and collateral saleability. The Bank evaluates all factors that influence risks based on qualitative and quantitative indicators using internally developed methodologies of credit risk assessment for short-term and long-term loans. Such analysis and evaluation allow classifying lending operation, identifying and summarizing credit risks related to a borrower that helps assess the probability of default by the borrower and the level of risk inherent in the lending operation.

Assessment of credit risk by individual borrower considers solvency assessment, analysis of his financial position, evaluation of quality and adequacy of collateral using the methodology of evaluation of individual borrowers and entrepreneurs. Based on such evaluation, Bank's specialists prepare the summary of borrower's financial position and classify the lending operation.

Assessment of individual credit risk by borrower in order to set lending limits is performed in accordance with relevant regulations on setting limits on lending and interbank placements. Based on this assessment, the Bank determines whether the lending operation is acceptable and the terms of the operation, i.e. maturity, amount, interest rate.

To ensure diversification of the loan portfolio, the Bank sets flexible limits for different lending activities.

Market risk

The Bank is exposed to market risks arising from changes in interest rates, foreign exchange rates, and other market prices that mostly depend on general and specific market conditions

ALCO sets risk limits acceptable to the Bank. In managing its market risks, the Bank applies recommendations of its Parent Company, Intesa Sanpaolo SpA, which are based on Group instructions.

The Parent Company continuously monitors market risk faced by the Bank in compliance with policies and procedures adopted by Intesa Sanpaolo SpA Group.

Currency risk

Currency risk is the risk of adverse changes in net foreign exchange positions due to fluctuations of currency rates. This risk has a potential impact on the Bank's profitability and capital

Currency risk has a direct impact on the Statement of financial position and the Statement of profit or loss and other comprehensive income, as assets and liabilities denominated in foreign currencies are to be translated into functional currency as at each reporting date.

The Bank uses limits as the key instrument for currency risk management. Limits and sublimits are applied to overall open foreign exchange position and foreign exchange position by specific currency. The system of internal limits allows comprehensive and adequate currency risk management based on principles adopted by the Bank.

In compliance with the NBU requirements, the Bank set currency risk limits and sublimits for its subdivisions for currency risk management purposes. Such limits are necessary to avoid unexpected losses from significant foreign exchange rate fluctuations.

The Bank applies the following limits:

Internal position limits:

- Limits for all currencies
- Limits for USD
- Limits for EUR

Internal position sublimits:

- Sublimits for non-trade operations (cash)
- Sublimits for precious metals

VaR limit

NBU limits for foreign currency position:

- Limit for long foreign currency position
- Limit for short foreign currency position

Control over currency risk is performed through day-to-day monitoring of net foreign exchange position and other macroeconomic indicators. Risk Management Department is responsible for determining the amount of limits and control over their adherence.

Department of Market and Operational Risk Management provides Bank's subdivisions with updated information on Bank's sensitivity to currency risk and, if market conditions significantly deteriorate, immediately reports to Risk Management Department of Intesa Sanpaolo, which takes necessary measures and immediately informs the Board of the Intesa Sanpaolo SpA Group.

Risk management Department is responsible for:

- daily analysis of Bank's net foreign currency position;
- determination of acceptable currency risk exposure and setting limits for net foreign currency position;

- initiating revision of Bank's policy applicable to limits in case of deterioration of market conditions;
- control over adherence to approved limits by responsible subdivisions of the Bank.

ALCO is responsible for:

ALCO is responsible for:

- approving limits;
- taking necessary measures, if approved limits exceed maximum acceptable amounts.

Adherence to established limits is binding for all subdivisions dealing with foreign exchange transactions.

Table 31.1. Currency risk analysis

(in thousands of Ukrainian hryvnias)							
Line	**Currency**	**As at 31 December 2016**			**As at 31 December 2015**		
		Monetary assets	**Monetary liabilities**	**Net position**	**Monetary assets**	**Monetary liabilities**	**Net position**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	USD	870 231	926 156	(55 925)	872 768	937 815	(65 047)
2	EUR	152 786	169 933	(17 147)	140 305	164 743	(24 438)
3	GBP	369	277	92	2 140	597	1 543
4	Other	93 034	87 918	5 116	53 635	47 528	6 107
5	**Total**	**1 116 420**	**1 184 284**	**(67 864)**	**1 068 848**	**1 150 683**	**(81 835)**

Table 31.2. Sensitivity of net profit or loss and equity to potential changes in official UAH exchange rates as at the reporting date, assuming that all other variables remain constant

(in thousands of Ukrainian hryvnias)					
Line	**Description**	**Weighted average currency rate for 2016**		**Weighted average currency rate for 2015**	
		Effect on profit/(loss)	**Effect on equity**	**Effect on profit/(loss)**	**Effect on equity**
1	**2**	**3**	**4**	**5**	**6**
1	20 % strengthening of USD	(11 185)	(11 185)	(10 668)	(10,668)
2	20 % weakening of USD	11 185	11 185	10 668	10,668
3	20 % strengthening of Euro	(3 429)	(3 429)	(4 008)	(4 008)
4	20 % weakening of Euro	3 429	3 429	4 008	4 008
5	20 % strengthening of GBP	19	19	253	253
6	20 % weakening of GBP	(19)	(19)	(253)	(253)
7	20 % strengthening of other currencies	1 023	1 023	1 002	1 002
8	20 % weakening of other currencies	(1 023)	(1 023)	(1 002)	(1 002)

Interest rate risk

In assessing and managing interest rate risk, the Bank uses the methodology where expected future cash flows are projected for different periods applying basis point changes in interest rates to sensitive assets and liabilities.

Financial Risk Management Committee of Intesa Sanpaolo S.p.A. approved the limit of net interest income sensitivity (+ 100 bp) at the level of +/- EUR 7.0 million in general for the banking portfolio and the limits for each time interval: short-term, medium-term and long-term. The limits were adopted by the Bank and are an integral part of interest rate risk management.

Key factors ensuring flexible interest rate risk management are as follows:

- liquidity aspect, i.e. availability and maintenance of sufficient liquid resources;
- price competition in lending and deposit operations by other banks;

- difficulties in forecasting movement in interest rates in Ukrainian financial market.

To mitigate interest rate risk, the Bank takes the following measures:

- prepares projections of interest rate fluctuations;
- analyses asset and liability structure on a daily basis;
- calculates and analyses movement in net interest margin on a monthly basis;
- monitors liquidity gap between assets and liabilities sensitive to interest rate fluctuations;
- performs monitoring of market interest rates for financial instruments and competitive benchmarking on a monthly basis.

Following the procedures approved by the Parent Company, the Bank prepares reports for the meetings of the Board of Directors and the Supervisory Board.

If market conditions deteriorate, Department of Market and Operational Risk Management, together with Risk Management Department of Intesa Sanpaolo S.p.A., continuously monitors situation in the market and Bank's risk exposure.

Table 31.3 Interest rate risk overview

Financial assets and liabilities insensitive to interest rate fluctuations, such as mandatory reserves with the NBU, other financial assets, and other financial liabilities were not included in the overview of interest rate risk as at 31 December 2016 and 2015.

(in thousands of Ukrainian hryvnias)

Line	Description	On demand and less than 1 month	1 – 6 months	6 - 12 months	More than 1 year	Total
1	2	3	4	5	6	7
	2016					
1	Total financial assets	1 701 541	455 610	234 127	754 762	3 146 040
2	Total financial liabilities	264 429	417 185	96 881	18 876	797 372
3	**Net interest rate gap as at the end of previous period**	**1 437 112**	**38 425**	**137 245**	**735 886**	**2 348 668**
	2015					
4	Total financial assets	2 279 731	303 335	330 644	1 016 823	3 930 533
5	Total financial liabilities	2 486 594	421 372	27 269	63 380	2 998 615
6	**Net interest rate gap as at the end of previous period**	**(206 863)**	**(118 037)**	**303 375**	**953 443**	**931 918**

Table 31.4. Monitoring of interest rates on financial instruments

%

Line	Description	2016				2015			
		UAH	USD	EUR	Other	UAH	USD	EUR	Other
1	2	3	4	5	6	7	8	9	10
Assets									
1	Cash and cash equivalents	0,16	-	-	-	0,15	0,03	-	-
2	Loans and advances to customers	16,62	10,44	8,71	-	18,17	11,44	12,27	-
3	Debt securities available for sale	13,82	-	-	-	20,42	-	-	-
Liabilities									
4	Due to banks	-	-	-	-	17,00	-	-	-
5	Due to customers:								
5.1	current accounts	2,33	0,31	0,12	-	4,67	0,77	0,36	-

									%
Line	**Description**	**2016**				**2015**			
		UAH	**USD**	**EUR**	**Other**	**UAH**	**USD**	**EUR**	**Other**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
5.2	term deposits	12,41	2,26	1,70	-	16,50	3,47	2,57	-
6.	Debt securities issued by the Bank	-	3,10	1,50	-	-	-	-	-

Other market price risk

Other market price risk arises in connection with the Bank’s investments in securities. Investments in securities are made within the prescribed limits. Limits on transactions with securities are set by the relevant committee of the Parent company. Limits are established in the light of issuers and specific issues of securities. Limits are established with the limited term of effect and thereafter reviewed.

The Treasury and Investment Banking Department initiates the necessity to establish the limits. The Risk Management Department provides assessment of the possibility to establish such limits. Then the relevant materials are submitted to the relevant committee of the Parent company.

The Risk Management Department monitors the compliance with the established limits on the permanent basis.

Geographic risk

Geographic risk is determined by specifics of the certain administrative and geographical region with conditions other than the average conditions in the country in general. The differences may refer to climate, national, political, legislative and other characteristics of the region that influence on the borrower’s position and is a component of credit risk.

Concentration of assets and liabilities by region is shown in tables 31.5 and 31.6.

Table 31.5. Analysis of geographic concentration of financial assets and financial liabilities for 2016

					(in thousands of Ukrainian hryvnias)
Line	**Description**	**Ukraine**	**OECD**	**Other countries**	**Total**
1	**2**	**3**	**4**	**5**	**6**
		Assets			
1	Cash and cash equivalents	341 288	575 026	1 377	917 691
2	Balance of mandatory reserve with NBU account	70 171	-	-	70 171
3	Loans and advances to customers	939 680	5 171	37 398	982 249
4	Securities available-for-sale	1 692 931	-	-	1 692 931
5	Other financial assets	29 245	1 368	1 036	31 649
6	**Total financial assets**	**3 073 315**	**581 565**	**39 811**	**3 694 691**
		Liabilities			
7	Due to banks	42 060	-	-	42 060
8	Due to customers	2 968 760	9 253	26 700	3 004 713
9	Debt securities issued by the Bank	80 708	-	-	80 708
10	Other financial liabilities	81 521	5 205	25	86 751
11	**Total financial liabilities**	**3 173 049**	**14 458**	**26 725**	**3 214 232**
12	Net balance sheet position	(99 734)	567 107	13 086	480 459
13	Credit-related obligations	9 850	-	-	9 850

Таблиця 31.6. Analysis of geographic concentration of financial assets and financial liabilities for 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Ukraine	OECD	Other countries	Total
1	**2**	**3**	**4**	**5**	**6**
		Assets			
1	Cash and cash equivalents	270 101	168 951	1 072	440 124
2	Other financial assets at fair value through profit or loss	-	2 633	-	2 633
3	Loans and advances to customers	1 779 911	4 760	41 614	1 826 285
4	Securities available-for-sale	1 813 143	-	-	1 813 143
5	Other financial assets	40 628	762	3	41 393
6	**Total financial assets**	**3 903 783**	**177 106**	**42 689**	**4 123 578**
		Liabilities			
7	Due to banks	24 060	-	-	24 060
8	Due to customers	2 964 581	7 705	19 558	2 991 844
9	Debt securities issued by the Bank	1	-	-	1
10	Other financial liabilities	107 925	7 701	2	115 628
11	**Total financial liabilities**	**3 096 567**	**15 406**	**19 560**	**3 131 533**
12	**Net balance sheet position**	**807 216**	**161 700**	**23 129**	**992 045**
13	Credit-related obligations	78 381	-	-	78 381

Liquidity risk

Liquidity risk is managed in compliance with the Bank's policy on liquidity risk management.

Liquidity risk is the risk that the Bank will be unable to exercise its obligations within the established term due to lack of possibility to attract assets at the market (**liquidity risk in case of financing**) or sell its liquidity assets (**liquidity risk of the market**). The Bank is able to cover cash outflows by funds or marketable assets received, as well as due to its own ability to obtain loans. In particular, under the market crisis it becomes rather difficult (or practically impossible) to sell such marketable assets or use them in security for cash. From this point of view, the liquidity risk is closely connected with the liquidity terms at the market.

To manage the liquidity risk the Bank constantly monitors future expected cash flows at operations with customers and intra-banking transactions, which is a part of the assets/liabilities management process. The Bank determines the liquidity risk and manages it based on the internal liquidity ratios and based on liquidity ratios established by the NBU.

Liquidity risk management covers current and term liquidity management, as well as liquidity management under the extraordinary conditions.

The process of liquidity risk management of the Bank is divided into three macro zones: (I) short-term, (II) structural and (III) extraordinary plan.

Short-term liquidity comprises the system of indices, limits and threshold limits of liquidity, which the Bank is exposed within the short-term period, used for establishing of the maximum risk that the Bank is ready to challenge and ensure the best approach to its management. The short-term period is accepted as the most important period considering that in case of problems with liquidity the Bank's solvency during the first several days is the critical factor for further development of any crisis situation.

Structural liquidity involves the system of actions and limits aimed at control and management of risks, arising due to inconsistency between the maturities of medium-term/long-term assets and liabilities, which are critically important for strategic planning of liquidity management and for avoidance of further deficit of short-term liquidity.

The issues of liquidity management under the crisis situations due to deterioration of the Bank's financial position have been specified in the Contingency Plan.

The Contingency Plan determines the system of indices for identification of the unforeseen conditions that may lead to deterioration of the Bank's liquidity position. Such plan comprises the list of authorities and procedures to be implemented under the extreme conditions.

The extraordinary situation in the light of liquidity may be related to market situation or the specific banking situation, whereas in view of its duration such situation may be classified as a temporary (several days) or a long one.

The Contingency Plan provides:

- detection of the initial indices of liquidity lack, their permanent control and determination of procedures to be implemented when the lack of liquidity becomes evident;
- legitimating of the actions of management responsible for administration of the extraordinary liquidity who should be able to the quick change of assets and liabilities structure;
- a range of instruments for immediate actions and intermediation to resolve the extraordinary situation.

Table 31.7. Analysis of financial liabilities by maturities for 2016

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2016 are as follows:

(in thousands of Ukrainian hryvnias)

Line	Description	On demand and up to 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Total
1	2	3	4	5	6	7
1	Due to banks	42 024	-	-	-	42 024
2	Due to customers:	2 526 367	205 629	229 977	18 918	2 980 891
2.1	Due to individuals	1 131 455	157 980	184 677	18 918	1 493 030
2.2	Other	1 394 912	47 649	45 300	-	1 487 861
3	Debt securities, issued by the Bank	1 524	28 684	50 500	-	80 708
4	Other financial liabilities	104 960	578	2 261	60	107 859
5	Financial guarantees	11 673	-	-	-	11 673
6	Other credit-related obligations	9 850	-	-	-	9 850
7	**Total potential future payments per financial obligations**	**2 696 398**	**234 891**	**282 738**	**18 978**	**3 233 005**

Customer accounts are classified based on remaining contractual maturities in the below analysis. However, in accordance with the Civil Code of Ukraine, for deposit agreements concluded prior to 6 June 2015, individuals have the right to withdraw their deposits prior to maturity, with their right to accrued interest forfeited. Some corporate deposit contracts envisage a possibility of early withdrawn. Certain deposit contracts with individuals concluded after 6 June 2015 also envisage early withdrawals. However, management believes based on its experience that majority of counterparties will not withdraw their deposits before maturity. The Bank does not use the below undiscounted cash flow maturity analysis to manage liquidity.

Table 31.8. Analysis of financial liabilities by maturities for 2015

Contractual maturities of undiscounted cash flows (including interest payments) of agreements on financial liabilities as at 31 December 2015 are as follows:

(in thousands of Ukrainian hryvnias)

Line	Description	On demand and up to 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Due to banks	29 184	-	-	-	29 184
2	Due to customers:	2 339 064	325 732	270 964	73 185	3 008 945
2.1	Due to individuals	1 240 110	219 077	232 762	9 008	1 700 957
2.2	Other	1 098 954	106 655	38 202	64 177	1 307 988
3	Debt securities, issued by the Bank	1	-	-	-	1
4	Other financial liabilities	131 985	682	1 631	89	134 387
5	Financial guarantees	12 477	-	-	-	12 477
6	Other credit-related obligations	78 381	-	-	-	78 381
7	**Total potential future payments per financial obligations**	**2 591 092**	**326 414**	**272 595**	**73 274**	**3 263 375**

Table 31.9. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2016

(in thousands of Ukrainian hryvnias)

Line	Description	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	More than 5 years	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
	Assets						
1	Cash and cash equivalents	917 691	-	-	-	-	917 691
2	Balance of mandatory reserve with NBU account	70 171	-	-	-	-	70 171
4	Loans and advances to customers	56 624	246 902	376 549	170 972	131 202	982 249
5	Securities available-for-sale	1 692 931	-	-	-	-	1 692 931
6	Other financial assets	30 978	671	-	-	-	31 649
7	**Total financial assets**	**2 768 395**	**247 573**	**376 549**	**170 972**	**131 202**	**3 694 691**
	Liabilities						
8	Due to banks	42 060	-	-	-	-	42 060
9	Due to customers	2 543 211	209 200	233 034	19 268	-	3 004 713
10	Debt securities issued by the Bank	1 524	28 684	50 500	-	-	80 708
11	Other financial liabilities	83 873	545	2 273	60	-	86 751
12	**Total financial liabilities**	**2 670 668**	**238 429**	**285 807**	**19 328**	**-**	**3 214 232**
13	Net liquidity gap as at 31 December 2016	97 727	9 144	90 742	151 644	131 202	480 459
14	*Cumulative liquidity gap as at 31 December 2016*	*97 727*	*106 871*	*197 613*	*349 257*	*480 459*	-

Table 31.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2015

(in thousands of Ukrainian hryvnias)

Line	Description	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	440 124	-	-	-	-	440 124
2	Other financial assets at fair value through profit or loss	2 633	-	-	-	-	2 633
3	Loans and advances to customers	515 470	193 063	381 076	394 438	342 238	1 826 285
4	Securities available-for-sale	1 797 664	15 479	-	-	-	1 813 143
5	Other financial assets	41 107	286	-	-	-	41 393
6	**Total financial assets**	**2 796 998**	**208 828**	**381 076**	**394 438**	**342 238**	**4 123 578**
	Liabilities						
7	Due to banks	24 060	-	-	-	-	24 060
8	Due to customers	2 356 993	314 308	249 205	71 338	-	2 991 844
9	Debt securities issued by the Bank	1	-	-	-	-	1
10	Other financial liabilities	113 226	682	1 631	89	-	115 628
11	**Total financial liabilities**	**2 494 280**	**314 990**	**250 836**	**71 427**	**-**	**3 131 533**
12	Net liquidity gap as at 31 December 2015	302 718	(106 162)	130 240	323 011	342 238	992 045
13	*Cumulative liquidity gap as at 31 December 2015*	*302 718*	*196 556*	*326 796*	*649 807*	*992 045*	-

Operational risk

The Group and the Bank determine an operational risk as the risk of losses resulting from inconsistency or failure to fulfil any procedures, incorrect actions of staff or internal systems, or because of external events. Such definition applies to a legal risk; however, strategic and reputation risks are not taken into account.

Operational risk management is a part of the Bank’s general risk management system. The necessity of operational risk management is determined by the essential value of losses caused by the operational risk that may threaten to the Bank’s financial stability.

The Bank’s operational risk management is a structural set of processes, functions, obligations and resources for determination (identification), evaluation (measurement), monitoring and reporting about operational risk, as well as taking of relevant actions by management.

The key purposes of ORM is timely identification and minimization of operational risk, as well as its prevention. A priority is to ensure protection of assets and capital based on reduction or prevention of possible losses.

Note 32. Capital management

The Bank’s shareholders give sufficient deal of interest to capital increase, specifically, to increase of the share capital as the key component of capital.

The Bank’s capital is formed for the purpose of:

– highly profitable use of own assets;

– covering of all risks accepted by the Bank;

- optimisation of assets and liabilities structure by ageing and investment of funds

As at 31 December 2016, the National Bank of Ukraine (the NBU) requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets computed in accordance with the NBU regulations

As at 31 December 2016 and 31 December 2015, the Bank was in compliance with regulatory capital adequacy ratio (R2) of 45.8% (31 December 2015:49.5%).

Table 32.1. Structure of regulatory capital based on the NBU requirements

(in thousands of Ukrainian hryvnias)

Line	Description	2016	2015
1	2	3	4
	Core regulatory capital	**623 349**	**1 251 903**
1	Share capital	968 371	968 371
2	Share premium	3 502 659	3 502 688
3	Total reserves under Ukrainian legislation	1 332	1 332
4	Intangible assets	(369 323)	(362 663)
5	Amortisation of intangible assets	201 398	164 904
6	Capital investments in intangible assets	-	(1 975)
7	Uncovered losses of past years	(3 023 901)	(2 256 091)
8	Uncovered credit risk	(166 207)	-
9	Estimated loss	(490 980)	(764 663)
	Additional capital	**124 386**	**159 453**
10	Provisions for standard indebtedness	41 427	46 093
11	Fixed assets revaluation result	82 959	113 360
	Deductions	**-**	**-**
12	Transactions with insiders	-	-
13	**Total regulatory capital**	**747 735**	**1 411 356**

Note 33. Contingent liabilities

Capital investments commitments.

As at 31 December 2016, in accordance contractual obligations PJSC CB "PRAVEX-BANK" had contractual obligations on purchase of property and equipment, and intangible assets amounting to UAH 1,476 thousand (31 December 2015: UAH 4,901 thousand).

Table 33.1. Structure of credit related commitments

(in thousands of Ukrainian hryvnias)

Line	Description	2016	2015
1	2	3	4
1	Outstanding credit related commitments	10 000	79 574
2	Undrawn credit lines	388 419	1 429 009
3	Export and other letters of credit	78 753	84 485
4	Guarantees issued	11 673	12 477
5	Provision for credit related commitments	(325)	(1 381)
67	**Total credit related commitments less provision**	**488 520**	**1 604 164**

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities and credit lines. Total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Table 33.2. Credit related commitments by currency

(in thousands of Ukrainian hryvnias)

Line	Description	2016	2015

1	2	3	4
1	UAH	123 449	641 841
2	USD	94 171	666 926
3	Euro	270 900	295 397
4	Other	-	-
5	**Total**	**488 520**	**1 604 164**

Note 34. Fair value of financial instruments

Fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, between the knowledgeable, willing and independent parties. Fair value estimates are based on the assumption that the Bank will continue its activities in future without any liquidation or essential reduction of transactions or carrying on transactions on unfavourable conditions. Fair value represents credit quality of financial instrument, as it includes the risk of counterparty's default.

Fair value estimates are based on prices received at financial markets in case of financial instruments quoted in an active market or using internal estimation methods in case of other financial instruments. Market is considered to be active when prices are easily quoted and available on the regular basis (by means of stock exchange, dealer, broker, industrial group, price informational service or regulating authority) and represent actual regular arm's length transactions between independent parties.

When the market does not operate on a regular basis, that is, it has no sufficient volatility and constant number of transactions, while the difference between purchase price and selling price is insufficient, fair value measurement is mainly based on valuation techniques aimed at establishing of the price of a hypothetic commercial transaction on an arm's length basis as at the measurement date.

Table 34.1. Analysis of financial instruments at amortized value by hierarchy level as at 31 December 2016

(in thousands of Ukrainian hryvnias)

	Description	Fair value by different measurement methods as at 31 December 2016			Total fair value	Total carrying value
		Quoted market price (Level I)	Valuation technique using observable inputs (Level II)	Valuation technique with significant unobservable inputs (Level III)		
1	2	3	4	5	6	7
FINANCIAL ASSETS						
1.	Cash and cash equivalents	-	917 691	-	917 691	917 691
2.	Loans and advances to customers	-	-	952 658	952 658	982 249
3.	Securities available for sale	-	1 692 931	-	1 692 931	1 692 931
FINANCIAL LIABILITIES						
4.	Due to banks	-	42 060	-	42 060	42 060
5.	Due to customers	-	2 975 123	-	2 975 123	3 004 713
6.	Debt securities issued by the Bank	-	80 708	-	80 708	80 708

Table 34.2. Analysis of financial instruments at amortized value by hierarchy level as at 31 December 2015

(in thousands of Ukrainian hryvnias)

	Description	Fair value by different measurement methods as at 31 December 2016	Total fair value	Total carrying

		Quoted market price (Level I)	Valuation technique using observable inputs (Level II)	Valuation technique with significant unobservable inputs (Level III)		value
1	2	3	4	5	6	7
FINANCIAL ASSETS						
1	Cash and cash equivalents	-	440 124	-	440 124	440 124
2	Other financial assets at fair value, through profit or loss	2 633	-	-	2 633	2 633
3	Loans and advances to customers	-	-	1 900 869	1 900 869	1 826 285
4	Securities available for sale	-	1 813 143	-	1 813 143	1 813 143
FINANCIAL LIABILITIES						
5	Due to banks	-	24 060	-	24 060	24 060
6	Due to customers	-	2 979 090	-	2 979 090	2 991 844
7	Debt securities issued by the Bank	-	1	-	1	1

The Bank uses the following hierarchy when measuring the fair value of financial instruments and disclosing based on the inputs used in the valuation techniques:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having maturity less than one month it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to funds on demand, savings accounts without a specific maturity, variable rate financial instruments, loans issued or deposits placed less than one month before reporting date.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and deposits is based on discounted cash flows using discount rates for assets and liabilities with similar credit risk and maturity.

For quoted shares and debts issued, the fair values are calculated based on quoted market prices on active markets for identical assets or liabilities. For shares and debts issued where quoted market prices on active markets are not available, a discounted cash flow model is used based on yield to maturity for similar financial instruments quoted on active financial markets.

Table 34.3. Significant unobservable inputs used in the measuring instruments categorised as Level 3 in the fair value hierarchy

						(in thousands of Ukrainian hryvnias)
Year	**Type of financial instrument**	**Fair value**	**Valuation technique**	**Significant unobservable inputs**	**Range of unobservable inputs**	**Fair value sensitivity to unobservable inputs**

1	2	3	4	5	6	7
2016	Loans and advances to customers	952 658	Cash flow discounting	Discount rate	UAH 10.5 – 33.29% Other currencies 4.21 – 14.57%	Significant increase of discount rate results in lower values of fair value
2015	Loans and advances to customers	1 826 285	Cash flow discounting	Discount rate	UAH 13.25 – 31.96% Other currencies 5.00 – 11.57%	Significant increase of discount rate results in lower values of fair value

Note 35. Presentation of financial instruments by measurement category

Table 35.1. Financial assets by measurement category for 2016

(in thousands of Ukrainian hryvnias)

Line	Description	Loans and receivables	Assets available-for-sale	Total
1	2	3	4	5
1	Cash and cash equivalents	917 691	-	917 691
2	Balance of mandatory reserve with NBU account	70 171		70 171
3	Loans and advances to customers:	982 249	-	982 249
3.1	corporate loans	681 097	-	681 097
3.2	loans to individual entrepreneurs	31	-	31
3.3	mortgage loans to individuals	971 228	-	971 228
3.4	consumer loans to individuals	1 196 639	-	1 196 639
3.5	other retail loans	23 851	-	23 851
3.6	loan impairment provision	(1 890 597)	-	(1 890 597)
4	Securities available-for-sale	-	1 692 931	1 692 931
5	Other financial assets:	31 649	-	31 649
5.1	receivables on transactions with customers	14 835	-	14 835
5.2	receivables on overdue accrued income on cash payments and other accrued income	3 024	-	3 024
5.3	receivables on payment card transactions	19 066	-	19 066
5.4	cash restricted for use	219	-	219
5.5	due from banks	932	-	932
5.6	cash collected from ATMs and terminals	3 154	-	3 154
5.7	other financial assets	1 297	-	1 297
5.8	impairment loss provision on other financial assets	(10 878)	-	(10 878)
6	**Total financial assets**	**2 001 760**	**1 692 931**	**3 694 691**

Table 35.2. Financial assets by measurement category for 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Loans and receivables	Assets available-for-sale	Financial assets at fair value through profit or loss (assets held for trading)	Total
1	2	3	4	5	6
1	Cash and cash	440 124	-	-	440 124

(in thousands of Ukrainian hryvnias)

Line	Description	Loans and receivables	Assets available-for-sale	Financial assets at fair value through profit or loss (assets held for trading)	Total
1	2	3	4	5	6
	equivalents				
2	Other financial assets at fair value through profit or loss	-	-	2 633	2 633
3	Loans and advances to customers:	1 826 285	-	-	1 826 285
3.1	corporate loans	650 162	-	-	650 162
3.2	loans to individual entrepreneurs	468	-	-	468
3.3	mortgage loans to individuals	1 081 379	-	-	1 081 379
3.4	consumer loans to individuals	2 043 870	-	-	2 043 870
3.5	other retail loans	21 472	-	-	21 472
3.6	loan impairment provision	(1 971 066)	-	-	(1 971 066)
4	Securities available-for-sale	-	1 813 143	-	1 813 143
5	Other financial assets:	41 393	-	-	41 393
5.1	receivables on transactions with customers	13 688	-	-	13 688
5.2	receivables on overdue accrued income on cash payments and other accrued income	3 853	-	-	3 853
5.3	receivables on payment card transactions	30 888	-	-	30 888
5.4	cash restricted for use	3 458	-	-	3 458
5.5	other financial assets	297	-	-	297
5.6	impairment loss provision on other financial assets	(10 791)	-	-	(10 791)
6	**Total financial assets**	**2 307 802**	**1 813 143**	**2 633**	**4 123 578**

Note 36. Transactions with related parties

Assets and liabilities valuation methos applied upon recognision of translations with related parties do not differ from generally accepted methods.
Agreements with the Bank's related parties do not envisage more favourable terms than agreements concluded with other parties.
The Bank's transactions with related parties during 2016 did not essentially influence on the Bank's financial results.

Table 36.1. Balances with related parties as at 31 December 2016

(in thousands of Ukrainian hryvnias)

Line	Description	UAH	%	Maturity	USD	%	Maturity	EUR	%	Maturity	Other	%	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Major shareholders													
1	Cash and cash equivalents	-	-	-	370 566	-	on demand	81 747	-	on demand	165	-	on demand
2	Other financial assets	62	-	from 2 to 31 days	-	-		-	-	-	-	-	-
3	Other financial liabilities	4 282	-	on demand	-	-	-	832	-	on demand	-	-	-
4	Other liabilities	-	-	-	-	-	-	3 600	-	on demand	-	-	-
Key management													
5	Other financial assets	1 034	-	on demand	-	-	-	-	-	-	-	-	-
6	Loans and advances to customers	254	12%	from 8 days - over 10 years	-	-	-	-	-	-	-	-	-
7	Loan loss provisions as at 31 December 2016	-	-	-	-	-	-	-	-	-	-	-	-
8	Due to customers	591	1 - 15%	on demand- up to 7 days	2	0,25 - 1,5%	on demand	15	0,25 - 1,5%	on demand- up to 7 days	-	-	-
9	Other liabilities	508	-	on demand- up to 365 days	-	-	-	-	-	-	-	-	-
10	Other financial liabilities	4	-	on demand- up to 365 days	-	-	-	-	-	-	-	-	-
Other related parties													
11	Cash and cash equivalents	-	-	-	49 912	-	on demand	-	-	-	1 026	-	on demand
12	Other financial liabilities	-	-	-	64	-	on demand	-	-	-	-	-	-
13	Other liabilities	-	-	-	-	-	-	277	-	on demand	-	-	-

Related parties comprise entities under common control, members of the Supervisory Board, key management personnel and their immediate family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

Table 36.2. Income and expenses on transactions with related parties for 2016

(in thousands of Ukrainian hryvnias)

Line	Description	Major shareholders	Key management	Other related parties
1	**2**	**3**	**4**	**5**
1	Interest income	31	34	-
2	Interest expense	(60)	(54)	-
3	Revaluation surplus on other financial instruments at fair value through profit or loss	(959)	-	-
4	Gains less losses from from foreign currency transactions	513	-	-
5	Gains less losses from foreign currency translation	17 503	31	7 637
6	Commission income	129	21	-
7	Commission expense	(1 937)	-	(466)
8	Other operating income	65	-	-
9	Administrative and other operating expenses	(18 952)	(17 684)	(1 550)

Table 36.3. Loans granted to and repaid by related parties during 2016

(in thousands of Ukrainian hryvnias)

Item	Description	Key management
1	**2**	**3**
1	Loans repaid by related parties during 2016	34

Table 36.4. Balances with related parties as at 31 December 2015

(in thousands of Ukrainian hryvnias)

Line	Description	UAH	%	Maturity	USD	%	Maturity	EUR	%	Maturity	Other	%	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Major shareholders													
1	Cash and cash equivalents	-	-	-	54 787	-	on demand	40 759	-	on demand	1 871	-	on demand
2	Financial assets at fair value through profit or loss	-	-	-	-	-	-	2 633	-	on demand	-	-	-
3	Other financial liabilities	4 381	-	on demand	-	-	-	765	-	on demand	-	-	-
4	Other liabilities	-	-	-	-	-	-	3 542	-	on demand	-	-	-
Key management													
5	Loans and advances to customers	255	12%	from 32 days - over 10 years	-	-	-	-	-	-	-	-	-
6	Loan loss provisions as at 31 December 2016	4	-	on demand - to 32 days	-	-	-	-	-	-	-	-	-
7	Due to customers	301	0 - 14%	on demand- to 7 days	78	0,5 - 1,5%	on demand- to 365 daysв	133	0,5 - 2%	on demand- to 92 days	-	-	-
8	Other liabilities	713	-	on demand	-	-	-	-	-	-	-	-	-
Other related parties													
9	Cash and cash equivalents	-	-	-	11 723	-	on demand	-	-	-	1 069	-	on demand
10	Other financial liabilities	-	-	-	53	-	on demand	-	-	-		-	
11	Other liabilities	-	-	-	-	-	-	323	-	on demand	-	-	-

Table 36.5. Income and expenses on transactions with related parties for 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Major shareholders	Key management	Other related parties
1	**2**	**3**	**4**	**5**
1	Interest income	-	39	-
2	Interest expense	(4 081)	(99)	-
3	Revaluation surplus on other financial instruments at fair value through profit or loss	103	-	-
4	Gains less losses arising from sale of securities available-for-sale	1 337	-	-
5	Gains less losses from foreign currency translation	208	-	-
6	Commission income	2 425	32	-
7	Commission expense	(48 746)	-	(388)
8	Other operating income	46	-	-
9	Administrative and other operating expenses	(18 099)	(16 756)	(1 271)

Table 36.6. Loans granted to and repaid by related parties during 2015

(in thousands of Ukrainian hryvnias)

Item	Description	Key management
1	**2**	**3**
1	Loans repaid by related parties during 2015	183

Table 36.7. Remuneration to key management

(in thousands of Ukrainian hryvnias)

Line	Description	2016		2015	
		Costs	Accrued liabilities	Costs	Accrued liabilities
1	**2**	**3**	**4**	**5**	**6**
1	Short-term employee benefits	15 678	504	13 527	713

The shareholder of PJSC CB "PRAVEX-BANK" is the Italian Intesa Sanpaolo Group.

Note 37. Subsequent events

In January 2017 investment property in the amount of UAH 27 640 thousand recorded by the Bank, apart from disclosed in Note 10, as at the reporting date became a subject-matter of case on litigation of the Bank's title to this investment property. As at the date of approval of these financial statements to issue the final decision with regard to this court case has not been taken.

Events efter 31 December 2016 do not require any changes to financial statements.

Chairman of the Board
PJSC CB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
PJSC CB "PRAVEX-BANK" **O.Yu. Kibets**

DATE: 15 FEBRUARY 2017

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Independent Auditors' Report

To the Board of Directors of
PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRAVEX-BANK"

We have audited the accompanying financial statements of PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRAVEX-BANK" (the Bank), which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, which includes general information on the Bank's activities.

Management's Responsibility

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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Ukraine's National Standards on Auditing adopted by the 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 entity'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.

KPMG

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Independent Auditors' Report
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Opinion

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

JSC KPMG Audit

JSC "KPMG Audit"

Certificate No. 2397 of 26 January 2001 issued by the Audit Chamber of Ukraine
EDRPOU Code: 31032100

NBU Banking Auditor's Registration Certificate No. 0000012 of 17 September 2012, Resolution No. 39

Anna Parkhomenko
Deputy Director

Certified Auditor
ACU Certificate: # 0085 dated 29 October 2009
NBU Certificate: # 0000044 dated 20 September 2007

15 February 2017