AVANGARD BANK

PUBLIC JOINT-STOCK COMPANY «BANK AVANGARD»

PJSC "BANK AVANGARD"

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2016

with Independent Auditor's Report

TRANSLATED FROM UKRAINIAN ORIGINAL

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TRANSLATED FROM UKRAINIAN ORIGINAL

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of PJSC "BANK AVANGARD"

Report on Financial Statements

We have audited the accompanying financial statements of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" (the Bank hereinafter), which comprise the statement of financial position as at 31 December 2016, statement of comprehensive income for 2016, statement of cash flows for 2016 (direct approach), statement of changes in equity for 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

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

Emphasis of Matter

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

Managing Partner — Alexander Pochkun

Auditor — Gagik Nersesyan

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

24 March 2017

Kyiv, Ukraine

Registration No.17-040

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Statement of Financial Position as at 31 December 2016

(in UAH thousand)

	(Note)	2016	2015
Assets			
Cash and cash equivalents	6	31 127	4 703
Due from other banks	7	563 635	388 466
Loans and advances to customers	8	44 266	4 409
Available-for-sale securities in trading portfolio	9	575 968	20 930
Held-to-maturity securities in trading portfolio	10	113 074	31 015
Current tax receivables		1 172	2 744
Deferred tax assets	26	105	112
Fixed and intangible assets	11	2 048	3 037
Other financial assets	12	505	8
Other assets	13	1 040	1 315
Total assets		**1 332 940**	**456 739**
Liabilities			
Due to banks	14	86 486	-
Due to customers	15	1 020 029	274 847
Current tax liabilities		2 373	5 877
Other financial liabilities	16	6 955	8 210
Provisions for liabilities	17	170	157
Other liabilities	18	3 874	3 076
Total liabilities		**1 119 887**	**292 167**
Equity			
Share capital	19	162 382	136 518
Retained earnings (losses)		48 616	27 284
Reserves and other funds		2 134	770
Revaluation reserves	20	(79)	-
Total equity		**213 053**	**164 572**
Total liabilities		**1 332 940**	**456 739**

Authorized for issue and signed by:

Chairman of the Board _____ **/S. Korchynska/**

Chief Accountant _____ **/V. Chechotkina/**

20 March 2017

In charge: M. Dmytrieva

t.: (044) 502-23-04

Statement of Comprehensive Income for 2016

(in UAH thousand)

	(Note)	2016	2015
Interest income	22	92 496	65 579
Interest expenses	22	(53 725)	(20 920)
Net interest income/(Net interest expense)		**38 771**	**44 659**
Net (increase)/decrease in provisions for impairment of due from customers, due from other banks	7,8	(5 578)	(96 463)
Net interest income/(Net interest expenses) after creation of provision for impairment of due from customers, due from other banks		**33 193**	**(51 804)**
Fee and commission income	23	8 308	1 529
Fee and commission expenses	23	(1 851)	(1 370)
Net fee and commission income		**6 457**	**159**
Gains on revaluation of other financial instruments at fair value through profit or loss	25	5 395	7 942
Gains on foreign exchange transactions		36 791	91 944
Gains on securities trading transactions in trading portfolio		1 727	2 832
Net (increase)/decrease in provisions for impairment of receivables and other financial assets	12	(16)	(1)
Net (increase)/decrease in provisions for liabilities	17	(14)	(157)
Operating income		**83 533**	**50 915**
Administrative and other operating expenses	24	(24 298)	(17 595)
Profit / (Loss) before tax		**59 235**	**33 320**
Income tax expenses	26	(10 675)	(6 036)
Net profit for the year		**48 560**	**27 284**
Other comprehensive income			
Items to be reclassified in profit or loss			
Revaluation of available-for-sale securities in trading portfolio		(96)	-
Income tax related to other comprehensive income	26	17	-
Other comprehensive income after tax		(79)	-
Total comprehensive income for the year		**48 481**	**27 284**
Net profit/(loss) per an ordinary share (UAH)	**27**	**398,03**	**223,64**

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Statement of Cash Flows for 2016 (direct approach)

(in UAH thousand)

	(Note)	2016	2015
Cash flows from operating activities			
Interest received		90 361	61 924
Interest paid		(47 342)	(20 609)
Fee and commission income		8 054	1 520
Fee and commission expenses		(1 978)	(1 328)
Trading securities operating result		8 575	2 832
Financial derivative instruments operating result		4 826	14 511
Gains from foreign exchange transactions		19 057	48 166
Staff costs paid		(16 818)	(10 669)
Administrative and other operating expenses paid		(4 879)	(5 601)
Income tax paid		(12 583)	(5 818)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**47 273**	**84 928**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		84 547	35 747
Net (increase)/decrease in mandatory cash balances with the National Bank of Ukraine		-	-
Net (increase)/decrease in loans and advances to customers		(40 992)	(8 000)
Net (increase)/decrease in other assets		(1)	6
Net increase/(decrease) in due to banks		86 155	(98 250)
Net increase/(decrease) in due to customers		738 537	82 096
Net increase /(decrease) in other financial liabilities		1 746	1 112
Net cash flows from/(used in) operating activities		**917 265**	**97 639**
Cash flows from investment activities:			
Purchase of available-for-sale securities in trading portfolio		(570 875)	(20 829)
Proceeds on disposal of available-for-sale securities in trading portfolio		20 829	48 866
Purchase of held-to-maturity securities in trading portfolio		(113 000)	(31 000)
Proceeds on redemption of held-to-maturity securities in trading portfolio		31 000	-
Acquisition of fixed assets		(292)	(60)
Acquisition of intangible assets		(167)	(568)
Net cash flows from/(used in) investing activities		**(632 505)**	**(3 591)**
Cash flows from financing activities			
Ordinary shares issue		–	–
Net cash flows from/(used in) financing activities		**–**	**–**
Effect of changes in official foreign exchange rate of the National Bank of Ukraine on cash and cash equivalents		**3 915**	**39 899**

Net increase /(decrease) in cash and cash equivalents		**288 675**	**133 947**
Cash and cash equivalents, at the beginning of the year	**6**	**192 727**	**58 780**
Cash and cash equivalents, at the end of the year	**6**	**481 402**	**192 727**

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20 March 2017
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t.: (044) 502–23–04

Statement of Changes in Equity for 2016

(in UAH thousand)

	Share capital	Reserve fund	Revaluation reserve	Retained earnings	Tota
Balance as at 31 December 2014	**122 000**	**9**	**1 189**	**15 279**	**138 477**
Increase in nominal value of shares	14 518	-	-	(14 518)	-
Distribution of previous year's profit	-	761	-	(761)	-
Total comprehensive income	-	-	(1 189)	27 284	26 095
Balance as at 31 December 2015	**136 518**	**770**	**-**	**27 284**	**164 572**
Increase in nominal value of shares	25 864	-	-	(25 864)	-
Distribution of previous year's profit	-	1 364	-	(1 364)	-
Total comprehensive income	-	-	(79)	48 560	48 481
Balance as at 31 December 2016	**162 382**	**2 134**	**(79)**	**48 616**	**213 053**

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Chief Accountant _____ **/V. Chechotkina/**

20 March 2017
In charge: M. Dmytrieva
t.: (044) 502–23–04

Note 1. Corporate information

The financial statements have been prepared in accordance with International Financial Reporting Standards based on operating results of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD". The reporting year is 2016.
PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" (hereinafter "the Bank") was registered in the State Register of Banks of Ukraine on 5 July 2013 under the registration No.346. The Bank is a resident of Ukraine, it is located at: 04116, Kyiv, 3 Sholudenko Street.
The Bank is a member of the Individual Deposit Guarantee Fund, a self-regulatory organization of professional participants of the securities market: the Association "Ukrainian Stock Traders", UkrSWIFT.
The Bank has correspondent banking relationships with DEUTSCHE BANK, the largest banks of Ukraine and settles accounts through leading international banks in all major currencies of the world by means of S.W.I.F.T. international payments. Since December 2013, the Bank has been cooperating with LLC "UKRAINIAN CREDIT HISTORY BUREAU" regarding data transfer on borrowers' credit histories.
In 2014 Westal Holdings Ltd. (location: Arch. Makarios III Avenue, 140, Raptopoulos Building, 3rd floor, office 301, 3021 Limassol, Cyprus) became the Shareholder of the Bank with a substantial holding in it. As at 1 January 2016, Westal Holdings Ltd. Directly holds 99.9902% of the Bank's share capital.
The following legal entities and individuals are indirect substantial share interest owners of the Bank:

- ICU Holdings Limited (location: Trident Chemberz, P.O. Box 146, Road Town, Tortola, British Virgin Islands), which indirectly owns:
    - 99,9902% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
    - 0,0098% of shares in the Bank through other legal entities;
- A group of individuals wedded by common economic interests, namely :
    - individual Kostiantyn Stetsenko (residence: Ukraine, Kyiv) indirectly owing 41,7095% of shares in the Bank through ICU Holdings Limited, which indirectly owns:
        - 99,9902% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
        - 0,0098% of shares in the Bank through other legal entities ;
    - individual Makar Pasenyuk (residence: Ukraine, Kiev region, Vyshgorod) indirectly owing 41,7095% of shares in the Bank through ICU Holdings Limited, which indirectly owns:
        - 99,9902% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
        - 0,0098% of shares in the Bank through other legal entities.

On 07/26/2016, an independent rating agency "Credit-Rating" updated the Bank's credit rating at uaAAA level; a forecast is "stable". A rating report can be found by reference http://www.avgd.ua/topublish/CR_Avangard_ua_260716.pdf

The Bank operates as a multipurpose bank, whose activities are aimed at a comprehensive customer servicing and providing of high-quality services by offering a wide range of banking services and products, focusing its core business on the exchange, monetary and stock markets, conducting operations both by own resources and at the customers' expense.

The bank has no affiliates, branches and separate structural divisions. The services are rendered to customers at the Head Office.

As at the end of the year, the Bank's customer base is formed by legal entities-businesses (110 customers), non-bank financial institutions (31 customers), private customers (22 customers) and

individual entrepreneurs (3 customers). The bank maintains 412 accounts and serves 166 customers.

Strategic goal

The Bank was established according to a special concept focused on the use of a solid grounding in its business segment with maximum operating efficiency by means of price-related competition and high-tech solutions. At this stage the principal directions of the Bank's activities are securities trading, active participation in the interbank loans market, "Forex" market transactions.

Types of banking activities

The Bank performs banking operations in the money and foreign exchange markets in accordance with the Banking License No. 269 dated 5 July 2013, the General License for conducting currency transactions No. 269-2 and the Annex to the General License for conducting currency transactions No. 269-2 issued by the National Bank of Ukraine on 10 February 2014.

As at the reporting date, the Bank has the License of the State Commission for Securities and Stock Market for conducting professional activities in the securities market as a dealer.

The Bank's activities are based on the principles of reliability, transparency, well-balanced financial performance, compliance with requirements and best practices of banking activities in the following areas:

Treasury operations: operations in the monetary market, transactions in the foreign exchange market, securities transactions, relationships with professional financial market participants - banks, insurance companies, financial intermediaries of capital markets. Deposit attracting transactions from the Bank's customers are considered as transactions in the monetary market, since they represent the main source of the Bank's funding. In order to provide such funding the following measures have been organized: customer servicing, document management associated with all types of transactions and operations, payment and message processing in the "Client-Bank" system, opening and maintaining of current accounts of customers and correspondent banks, including transfer of funds using payment instruments and crediting of funds to accounts; management of customers' (both resident and non-resident) accounts in foreign currencies and non-resident customers' accounts in the currency of Ukraine; management of correspondent accounts of banks (resident) in foreign currencies; opening of correspondent accounts in the authorized banks of Ukraine in foreign currencies and transactions with them.

In 2016, the National Bank of Ukraine has applied to the Bank no restrictions to limit activities performed by the Bank according to permits and licenses granted; there has been also no restrictions regarding the ownership of assets.

No decisions were made during the reporting year by the Bank's Management on the merger, consolidation, disintegration, separation or transformation of the Bank or on the termination of certain activities of the Bank.

There were no bankruptcy proceedings or arbitrations on the Bank's resolution; no decisions were made on the Bank's termination or bankruptcy by the highest governing body of the Bank or the court.

No borrowings or loans exceeding 25% of the Bank's total assets were received or provided.

Performance indicators in 2016

As at 31 December 2016, the Bank's assets amounted to UAH 1 332 940 thousand (as at 31 December 2015 – UAH 456 739 thousand). The basic constituents of assets are highly liquid assets and interbank transactions.

The Bank invested in debt securities, mainly government bonds and deposit certificates of the National Bank of Ukraine, which provided an acceptable yield upon low risk exposure conditions. Funds in nostro accounts are deposited at non-resident and resident banks.

As at 31 December 2016, the Bank's liabilities amounted to UAH 1 119 887 thousand (2015: UAH 292 167 thousand). The resource base is formed by customer assets, including short-term funds of legal entities and individuals. As at 31 December 2016, the portfolio of customer deposits amounted to UAH 1 020 029 thousand (UAH 274 847 thousand).

As at 31 December 2016, the Bank's equity amounted to UAH 213 053 thousand (2015: UAH 164 572 thousand). The main component of equity is the Bank's share capital.

As at 31 December 2016, the Bank's regulatory capital amounted to UAH 218 221 thousand, including tier I capital in the amount of UAH 163 125 thousand and tier II capital in the amount of UAH 55 096 thousand.

During 2016, the Bank adhered to the economic standards of the National Bank of Ukraine, which as at 31 December 2016 had the following indicators:

	Characteristic value	As at 31 December 2016	As at 31 December 2015
regulatory capital ratio (N1)	UAH 122 000 ths.	UAH 218 221 ths.	UAH 214 165 ths.
regulatory capital adequacy ratio (N2)	not <10%	41,64%	59,99%
instant liquidity ratio (N4)	not <20%	69,07%	109,76%
current liquidity ratio (N5)	not <40%	137,12%	162,34%
short-term liquidity ratio (N6)	not <60%	133,14%	131,91%

As at 31 December 2016, the Bank's activities are income-generating.

Following the results of 2016, the Bank received net profit amounting to UAH 48 560 thousand. The main items that influenced the financial result for 2016 are as follows:

net interest income – UAH 38 771thousand;

net fee and commission income - UAH 6 457 thousand;

foreign exchange trading income - UAH 36 791 thousand;

other financial instruments revaluation result - UAH 5 395 thousand;

administrative expenses - UAH 24 298 thousand;

creation of provisions - UAH 5 578 thousand.

Corporate governance

The Bank's supreme governing body is the General Meeting of the Shareholders. In the periods between the General Meeting of the Shareholders, the Supervisory Board of the Bank protects the Shareholders' rights, as well as controls and regulates within its competence the activities of the Board of Directors.

The exclusive competence of the Supervisory Board includes the following: approving of the Provisions and other internal documents of the Bank, which regulate issues related to the Bank's activities, approval of which is within the jurisdiction of the Supervisory Board; decision-making in respect of holding of the General Meeting of the Shareholders, approving the agenda of the Meeting, electing a registration commission and deciding on the date of the Meeting; decision-making on repurchasing and placing by the Bank of other securities other than shares; approving of the market value of property in cases stipulated by law; electing and terminating

of powers of the Chairman and members of the Board of Directors, monitoring the activities of the Board; decision-making on removal of the Chairman of the Board from his/her powers and electing a person temporarily exercising the powers of the Chairman of the Board; electing of an auditor; creating of the Internal Audit Department and approval of the respective Provisions; appointing and dismissal of the Head of the Internal Audit Department; determining of the external auditor and the respective contractual terms; establishing audit procedures and controls over financial and economic activities of the Bank; decision-making on covering losses; addressing issues of the Bank's participation in corporations, establishment, reorganization and liquidation of other legal entities, branches and representative offices of the Bank, approval of their statutes and regulations; determining the probability of recognition of the Bank's insolvency caused by assumption or implementation of liabilities, including payment of dividends or redemption of shares; decision-making on the election of the Bank's property appraiser; decision-making on the election (substitution) of a registrar of inscribed stock holders of the Bank or a depository of securities and approving of respective contractual terms, remuneration determining; as well as other issues specified by applicable law or delegated to the Supervisory Board by the General Meeting of the Shareholders.

The executive body of the Bank is the Management Board, which manages the daily operations of the Bank, is responsible for formation of funds required for the Bank's statutory activities and efficiency of its operations in accordance with the principles and procedures established by the Bank's Charter, resolutions of the General Meeting of the Shareholders and the Supervisory Board. The Management Board is accountable to the General Meeting of the Shareholders and the Supervisory Board of the Bank and provides for the implementation of their decisions. The Management Board decides on the managing of the Bank's structural divisions, monitors the Bank's compliance with the current legislation of Ukraine; organizes deposit operations for the Bank's cash assets and valuables, accounting and reporting transactions, internal controls and other issues regarding the Bank's activities; reviews and approves the internal documents at the Bank within its competence, decides on the establishment, management and liquidation of the Bank's structural divisions other than those which fall within the exclusive competence of the Supervisory Board, and exercises other powers stipulated by the current legislation of Ukraine.

The Bank's organizational structure is based on the main directions, each of them being dependent to one of the members of the Management Board.

As at the year-end, the number of employees at the Bank is 24 persons.

Risk management system

The Bank's risk management system is aimed at ensuring the implementation of business goals defined under the Bank's development strategy and enhancing its value, optimizing the potential opportunities and risks ratio, capital stock and growth rates of the Bank.

The main instrument in implementation of these objectives is a comprehensive risk management system established at the Bank that provides action coordination across all the departments within a single strategy regarding risk management, approved by the Supervisory Board of the Bank. The formation of the integrated system is aimed at a maximum concentration of the Bank's risk management functions, ongoing analysis of the situation and environment where risks arise and executive decision-making regarding the influence over these risks and/or the level of the Bank's exposure to them.

The Bank's risk management system is based on the principles defined by the regulatory authorities and recommendations of the Basel Committee.

The distribution of functions and powers in the risk management covers all organizational levels and divisions of the Bank. The basic structure of the Bank's risk management stipulates for the

involvement of the Supervisory Board, the Management Board, special-purpose committees, the Bank's risk management services and structural divisions in the risk management process.

The general supervision over the implementation of the Bank's risk management is carried out by the Bank's Supervisory Board; the implementation of the risk management system is carried out by the Management Board.

The Asset and Liability Management Committee determines the optimal balance sheet structure, plans the financial performance indices and monitors their implementation, considers the cost of funding sources, controls the liquidity risk, interest rate and foreign currency risks.

The Credit Committee manages credit and investment activities and monitors the credit risks associated with individual customers and credit-investment portfolio as a whole.

The Tariff Committee regulates commission income, analyzes the current tariff rate competitiveness.

The Risk Management Division provides for quantitative and qualitative assessment of risks faced by the Bank, or those, which may arise as a result of future activities, monitors the status and amount of risks, namely:

- credit risk;
- liquidity risk;
- interest rate risk;
- market risk;
- foreign currency risk;
- operational and technological risks;
- compliance-risk;
- reputation risk;
- legal risk;
- strategic risk.

The Internal Audit Division evaluates the sufficiency of the risk management systems to the Bank's requirements.

The Bank's structural divisions perform the risk operational management associated with their activities according to the established risk tolerance levels and limits, and are responsible for the risk acceptance results. The Bank improves the risk management system on a regular basis and provides timely updating of the interbank statutory framework in case of changes in legal, regulatory or statutory requirements, the Bank's organizational structure and risk tolerance.

Note 2. Economic environment

Experts believe that there was a rapid decline in a consumer inflation - up to 12.4% in 2016, while in 2015 consumer prices increased by 43.3%.
Overall, imports of goods increased by 3.8% in 2016 due to increasing domestic investment and consumer demand.
In 2016, the currency market remained relatively stable, despite certain easing of currency restrictions. Thus, the stability of the market was still achieved through administrative measures of the National Bank of Ukraine. Despite the slowdown in economic decline rates, not all banks have been able to cope with the economic situation. In 2016 the withdrawal of insolvent banks from the market continued.

During 2016, there was an increasing liquidity surplus in the banking system. The banks significantly increased investments in deposit certificates of the National Bank of Ukraine being an alternative accommodation source of hryvnia. Among the factors forming a liquidity surplus were the following: the reduced demand for cash caused by weak economic activity, interventions of the National Bank of Ukraine on foreign currency purchases, repayment and servicing of refinancing loans by banks.
Expanding liquidity in the banking system, originated in November, accelerated in December. In particular, it was represented by a rapid increase in average daily balances both on correspondent accounts and on certificates of deposit of the NBU.
The main channel of liquidity reduction was a significant growth in cash volumes (by UAH 30.5 billion) both due to seasonal and psychological factors (against the background of the situation with Privatbank). In addition, the banking system's liquidity declined due to repayment by banks of loans previously received from the NBU (net volumes of credit operations with banks amounted to UAH 3.5 billion) and through the exchange channel (for approximately UAH 3.3 billion).
As at the year-end, the increase in cash volumes significantly exceeded the decrease in banks' correspondent accounts, ensuring the augmentation of monetary base in December (by 6.7%). The annual growth rate of the monetary base accelerated to 13.6%.
The inflow of household deposits in the national currency accelerated (1.9% m/m) and their growth in the corporate sector resumed (6% m/m), despite the temporary outflow of funds from deposit accounts in Privatbank. The rapid resolution of the Privatbank's issue and significant year-end budget spending promoted further inflow of deposits.

In 2016, there was some easing of the monetary policy of the National Bank of Ukraine. A discount rate of annual 22% was reduced to 14%. Accordingly, active transaction rates of the National Bank of Ukraine were lowered. The changes in rates of the National Bank of Ukraine, as well as the banking system liquidity surplus promoted the reduction of rates both at the interbank credit market in the national currency and on deposits of individuals and legal entities. At the same time, rates on loans to individuals and legal entities remained approximately the same.

The credit capacity of banks still remains low. The dynamics of loan portfolios of the largest banking institutions - namely banks of I and II groups – is uneven. The efforts of a number of banks were directed to write off bad loans, especially in the corporate segment. A tendency remained where corporate customers with a state share in the ownership structure transfer from commercial to the state banks.

Note 3. Basis of presentation

The Bank's annual financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on a historical cost basis, except for the following items: available-for-sale securities in the Bank portfolio at fair value, loans and advances to customers, due from other banks, due to customers, held-to-maturity securities in the Bank portfolio at amortized cost.

The financial statements are presented in UAH, and all amounts are rounded to thousands, except where otherwise indicated. The Bank's functional currency is UAH.

The Bank's accounting policy for the reporting period corresponds in all major aspects to the Bank's accounting policy for the previous period.

The Bank's accounting records and financial statements are based on the following principles:

full coverage - all banking transactions are to be registered on accounts without any exceptions. The financial statements must contain all information about actual and potential effects of the Bank's operations that may affect the decisions made according to it;

continuity - the Bank's assets are valued on the assumption that the Bank is a going concern and remains active in the boundless future. If the Bank plans to scale down its activities, such intention shall be recorded in the financial statements;

consistency - the Bank's permanent (year on year) application of accounting policies selected. Changes in the accounting method are possible only in cases stipulated by international standards and national regulations of accounting and require additional justification and disclosures in the financial statements.

accrual and correspondence of income and expenses – in order to determine the reporting period results, the income for the reporting period shall be reconciled with the expenses incurred to obtain such income. Income and expenses are disclosed in the accounting records and financial statements when incurred regardless of the date of receipt or payment of cash assets. Income represents increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Expenses represent decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants;

autonomy - all asset and liability accounts of are measured separately and disclosed in detail;

prudence – prudence requires that accountants should exercise a degree of caution in the adoption of policies and significant estimates such that the assets and income of the entity are not overstated whereas liability and expenses are not under stated;

substance over form - is an accounting concept which requires transactions to be accounted for according to their substance and not merely their legal form.

Going concern

According to the Resolution of the Board of the National Bank of Ukraine No.464 dated 08/06/2014, the Bank is required to increase its share capital.

On 04/07/2016, the Board of the National Bank of Ukraine adopted the Resolution No.242, which amended the schedules of enhancement of share and regulatory capitals to the level stipulated by banking legislation. The aforementioned Resolution provides for the enhancement of banks' share capitals up to UAH 200 000 000,00 until 07/11/2017.

The Bank plans to increase its share capital up to UAH 200 000 thousand in terms stipulated by the Resolution through capitalization of profits in 2016. The enhancement of the share capital up to UAH 500 000 thousand is planned through capitalization of retained earnings, additional contributions of the Shareholders or raising funds from investors.

There are no plans regarding termination of the Bank's activities.

These financial statements have been prepared on the assumption of the Bank's ability to continue as a going concern.

Note 4. Summary of significant accounting policies

Note 4.1. Core activities

The Bank operates under the legislation of Ukraine, including the Laws of Ukraine "On Banks and Banking Activity", "On Accounting and Financial Reporting in Ukraine", "On Payment Systems and Money Transfer in Ukraine", the Tax Code of Ukraine. The Bank maintains accounting records in accordance with the statutory requirements for accounting and reporting in the banks of Ukraine set by the rules of the National Bank of Ukraine in accordance with International Accounting Standards, as well as the Bank's internal documents, the Charter, Regulations on the Supervisory Board of the Bank, Regulations on the Management Board, and other transaction regulations.

During 2016 the Bank's activities were focused on expanding the customer base, improving key business processes and customer service technologies, updating banking services in response to changes occurring in the country and society.

The Bank aims to maximize profits from treasury operations and fully meet the needs of customers in qualitative banking servicing on the monetary, foreign exchange and stock markets. The Bank's activities are based on the principles of reliability, transparency, well-balanced financial performance, compliance with banking regulations.

The nature of operations and principal activities of the Bank are set out in the Corporate information.

Note 4.2. Basis of preparation

Key assessment indicators. Financial assets and liabilities are stated at fair value, historical cost or amortized cost depending on their classification.

Fair value – is the amount on which an asset can be exchanged, or a liability settled during the implementation of an agreement on general conditions between knowledgeable unrelated parties acting on a voluntary basis. Fair value is the current bid price for financial assets and financial liabilities for the bid listed on the active market. A financial instrument is considered so that is quoted in an active market, if the quotes for this financial instrument are readily and regularly available on the stock exchange or other institution and those prices represent actual and regularly occurring market transactions on general terms. To determine the fair value of certain financial instruments for which there is no information about market prices from external sources, the valuation techniques are used such as discounted cash flow, valuation models

that are based on data about the latest agreement made between unrelated parties, or analysis of financial information on investment objects. The use of valuation techniques may require assumptions not supported by observable market data. The information in the financial statements is disclosed in cases when changing of any such assumptions by possible alternative may result in significantly different profit, income, total assets or total liabilities.

Historical cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the acquisition date, which includes transaction costs. Historical cost valuation is applied to equity instruments that do not have a quoted market prices in an active market, and fair value of which cannot be reliably measured. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if an entity had not acquired, issued or disposed of a financial instrument. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. In addition to assessment methods in recognition of assets, the Bank uses various methods to bring the value of financial instruments and assets to fair value through the accrual of income and expenses, including using the effective interest rate method, formation of special-purpose bank reserves, revaluation to fair value, depreciation of non-current assets, etc.

Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus interest accrued, plus (or minus) cumulative amortization of any difference between that initial amount and the maturity amount using effective interest method, and minus any reduction for impairment for the financial assets.

Effective interest rate method is the method of calculating the amortized cost of a financial asset or a financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of a financial instrument or, where appropriate, a shorter period to the net balance sheet value of a financial asset or a financial liability.

The difference between the Bank's accounting policies from the requirements of IFRS is conditional and consistent with the difference between the regulatory framework of the National Bank of Ukraine and the requirements and provisions of IFRS.

Note 4.3. Initial recognition of financial instruments

A financial asset or a financial liability is recognized when the Bank becomes a party to the agreement on this financial instrument. At initial recognition financial assets and financial liabilities are measured:

at fair value - trading securities;
at fair value plus transaction costs through profit or loss directly attributable to the acquisition or issue of a financial asset or financial liability - derivatives and all other financial instruments. The fair value of a financial instrument at initial recognition is normally the actual transaction price. Gains or losses at initial recognition are recognized only if there is a difference between the fair value and the contractual value proved by other current transactions with the same financial instrument observed in the market, or valuation techniques using only observable inputs as baseline data.

Purchases and sales of financial assets supply of which is carried out within the terms established by the laws or customs of business turnover for the particular market were stated on the transaction date. All other purchases and sales are recognized on the settlement date, where the change in the fair value of the assumption of obligations between a transaction date and settlement date is not recognized in respect of assets carried at cost or amortized cost.

Note 4.4. Impairment of financial assets

Financial assets, other than financial assets at fair value through profit and loss, are assessed for impairment indicators at the end of each reporting period. Impairment losses are recognized in profit or loss when incurred. Financial assets are considered impaired when there is an objective evidence that as a result of one or more events occurred after the initial recognition of a financial asset there was a negative effect on the estimated future cash flows from investments.

The main events that indicate the impairment of a financial asset are as follows:

- significant financial difficulties of a customer;
- breach of a contract, such as default or delinquency in interest or principal payments;
- debt restructuring (for economic or legal reasons related to financial difficulties of a debtor), that would not otherwise be considered by the Bank;
- high probability of bankruptcy or financial reorganization of a borrower;
- extinction of an active market for a financial asset because of financial difficulties;
- credit operation claimed by the debtor (including through legal action);
- other events objectively evidencing the impairment of a financial asset.

For financial assets measured at amortized cost, the amount of the impairment loss represents the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate for the relevant financial asset.

For financial assets measured at cost, the amount of the impairment loss represents the difference between the asset's carrying amount and the present value of future cash flows discounted at the current market rate for a similar financial asset. Such impairment loss is not reversed in subsequent periods.

Note 4.5. Derecognition of financial instruments

Financial assets. A financial asset (or, where applicable a part of a financial asset or group of similar financial assets) is derecognized when the assets are redeemed or the rights to receive cash flows from the assets have otherwise expired, or the Bank has transferred substantially all the risks and rewards of ownership or has not transferred and retained basically all the risks and rewards of ownership but has ceased to exercise control. Control is retained if a counterparty does not have the practical ability to sell the asset to an unrelated third party without additional restrictions on resale.

Financial liabilities. A financial liability is derecognized when it is discharged or canceled or expires. When one existing financial liability is replaced by another to the same lender on substantially different terms, or when the terms of existing liabilities change, the initial liability is withdrawn from the account with subsequent recognition of a new financial instrument, and the difference between the respective carrying amounts is recognized in the statement of comprehensive income.

Note 4.6. Cash and cash equivalents

Cash and cash equivalents. Cash and cash equivalents are assets which can be converted into cash at short notice and which have low risk of change in value. Cash and cash equivalents are unrestricted balances on correspondent accounts with the National Bank of Ukraine and other banks with maturity up to three months, which may be freely converted to the respective amount of cash in a short period of time, as well as deposits and overnight loans at banks, for which interest does not accrued and provisions for depreciation of possible losses under credit transactions are not formed.

Due from other banks. Amounts due from other banks are recorded when the Bank provides to banks-counterparties cash funds repayable on a fixed date; upon that the Bank has no intention of trading with the receivables arising. These receivables are not related to derivative

financial instruments and have no quoted market prices. Due from other banks are stated at amortized cost.

Note 4.7. Due from other banks

Due from other banks are short-term deposits and loans, as well as overnight loans and deposits, for which interest is accrued and provisions for depreciation of possible losses under credit transactions are formed.

Note 4.8. Loans and advances to customers

Loans and advances to customers represent non-derivative financial assets with fixed or determined payments, which are not quoted (listed) in an active market, except for assets classified as other categories of financial assets.

Loans granted by the Bank are initially recognized at fair value plus related transaction costs. Subsequently, loans are carried out at amortized cost using the effective interest rate method. Loans to customers are recognized net of any allowance for impairment losses. Interest income and impairment losses are recognized in profit and loss. In case of uncertainty regarding the possibility of loans repayment, their value is reduced to the present value of the expected cash flows and interest income is thereafter recorded based on the effective interest rate on this instrument used to measure the impairment loss. In this case, the accrued interest on such instrument is calculated based on the cost of the instrument taking into account the provision for impairment.

Lending commitments. The Bank undertakes credit commitments including financial guarantees. A financial guarantee is an irrevocable undertaking of the Bank to pay a certain amount to the beneficiary of the guarantee within the specified limits of the guarantee if the Bank's customer who has requested the Bank to issue such guarantee has failed to fulfil his obligations towards the beneficiary.

Note 4.9. REPO contracts

The Bank recognizes REPO contracts as granted (received) loans backed by securities and accounts for at amortized cost.

The Bank continues to recognize the securities sold under REPO contracts with prohibition of sale or grant as collateral in the trading portfolio or securities portfolio available-for-sale. If a REPO contract gives a buyer the right to sell securities or pledge them as collateral, the Bank reclassifies such securities into receivables for securities.

Note 4.10. Available-for-sale securities in the Bank portfolio

During the reporting year, the Bank portfolio of available-for-sale securities comprised treasury bonds, deposit certificates of the National Bank of Ukraine and the bonds of economic entities.

According to the Bank internal documents, the Bank may apply, depending on the intention of acquisition and retention capabilities, such types of securities valuation owned by the Bank: at fair value or at acquisition cost (cost).

Securities accounted for at cost: shares and other securities with variable income, for which fair value cannot be estimate reliably.

Purchased securities are initially measured and stated at fair value, plus the cost of acquisition of such securities. At each balance sheet date subsequent to initial recognition available for sale securities are stated at fair value.

The fair value of securities traded on organized markets is determined by their market value. If quoted market prices for securities are not available, the Bank uses the following methods to determine the fair value:

a reference to the market price of a similar instrument;
analysis of discounted cash flows using KIACR.

All available-for-sale securities at the reporting date are subject to review for impairment. The Bank recognizes impairment of securities in case of loss of economic benefits in the amount of excess of the carrying amount of securities over the recoverable amount. Provisions for impairment of securities are created monthly in accordance with the expectations approved by the decision of the Credit Committee. At the year-end, the Bank recognized no impairment of available-for-sale securities.

Debt securities recognized by the Bank as bad debts are written off against reserves according to the decision of the Management Board.

During 2016, the Bank carried out transactions under REPO contracts accounted for as credit transactions with the recognition of interest income and continued recognition of available-for-sale securities under REPO transactions.

Note 4.11. Held-to-maturity securities in the Bank portfolio

Held-to-maturity securities in the Bank portfolio are initially recognized at fair value with the disclosure of income and expenses related to the acquisition at the discount/premium accounts. At each subsequent reporting date, the securities are measured at amortized cost using the effective interest rate and are subject to review for impairment (as the difference between the asset's carrying amount and the present value of estimated future cash flows).

The Bank does not form provisions for securities issued by the central executive authorities and the National Bank of Ukraine.

During 2016, the Bank's portfolio of held-to-maturity securities comprised only deposit certificates of the National Bank of Ukraine.

Note 4.12. Fixed assets

Fixed assets and other non-current tangible assets are accounted for in accordance with the requirements of the Regulations on financial accounting of fixed assets and intangible assets. The fixed assets are recognized by the Bank at the historical cost. The cost of acquired fixed assets and other non-current tangible assets includes all expenses associated with the acquisition, delivery, installation and putting into operation. Administrative and other expenses not directly related to an acquired asset or its putting into operation were not included to the historical cost of an asset. Assets' current repair and maintenance expenses expensed as incurred and did not affect the carrying amount of non-current assets.

According to the Bank's accounting policies, non-current tangible assets with historical cost of up to UAH 2500.00 and a useful life exceeding one year were recognized as non-current tangible assets of low-value.

Depreciation of fixed assets and other non-current tangible assets is performed every month. For assets acquired depreciation is calculated from the 1st day of the month following the month of acquisition, and for assets disposed depreciation terminates from the 1st day of the month following the month of disposal.

Depreciation is calculated on a straight-line basis. The residual value of fixed assets is assumed to be zero.

In the estimation of the useful lives of the assets the following criteria were taken into account: prior experience operating with similar assets, current status of assets, asset repairs and

maintenance issues, current trends in engineering. During the annual inventory of fixed assets, the Bank replaces the expected economic benefits from the use of fixed assets.

The Bank's accounting policies for 2016 provide for the following useful lives of fixed assets:

machinery and equipment - 5 years;
furniture and fixtures - 4 years;
other non-current tangible assets – 2,5 years (according to the term of the premises lease agreement).

The acquired non-current tangible assets of low value are depreciated in the first month of the asset's use in the amount of 100% of its value.

Note 4.13. Intangible assets

Intangible assets are measured and accounted for at cost, which comprise the actual cost of acquisition (production) and bringing to a state in which they are suitable for use according to the intended purposes.

Depreciation is calculated monthly using a straight-line method under the norms set according to useful lives of corresponding assets. The useful life of an intangible asset is established by the Bank independently taking into account the following criteria: prior experience operating with similar assets, current trends in software development, performance characteristics.

Finite useful lives of intangible assets are approved by the commission of the Bank, but not more than 10 years. The largest share of intangible assets constitute assets with useful lives of 10 years.

In 2016, during conduction of the annual inventory of intangible assets, the Bank neither changed the expected economic benefits from the use of intangible assets and fixed assets, nor reviewed deadlines of useful lives for commissioned intangible assets.

Note 4.14. Derivative financial instruments

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

its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
it requires no initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
it is settled at a future date.

A derivative instrument is recognized as a financial asset or financial liability on the date of obligation regarding purchase or the sale of a contract subject. Derivative financial instruments include currency swaps, forward transactions, foreign exchange spot transactions and combinations of these instruments.

Derivative financial instruments are recognized at fair value through profit or loss. Derivatives are carried as assets when their fair value is positive or as liabilities when their fair value is negative. The fair value of derivatives that are not sold and not acquired in an active market is determined using valuation techniques.

During 2016, the Bank performed no hedging transactions.

Note 4.15. Funds raised

Due to other banks are recognized upon the receipt of funds by the Bank. Non-derivative financial liabilities are accounted for at amortized cost.

Due to customers comprise non-derivative financial liabilities to government and corporate customers, individuals, and are accounted for at amortized cost.

The Bank recognizes interest expenses on borrowed funds at least once a month in profit or loss and other comprehensive income (statement of comprehensive income).

Note 4.16. Provisions for liabilities

Provisions for liabilities are determined and recognized in the financial statements when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Note 4.17. Income tax

Current income tax and deferred income tax are determined and recognized in the financial statements separately.

Current income tax and deferred income tax are recognized as expenses or income in the statement of comprehensive income, except for income tax assessed in respect of the revaluation of assets to the fair value which is recorded as the Bank's' capital.

Income tax rate amounts to 18%.

Deferred tax was accrued at the rate of 18% for general transactions and securities trading operations.

Deferred tax assets were recognized in the amount of expenses to be included in taxation of subsequent periods:

in excess of the residual value of fixed assets and intangible assets in the tax records over the cost in financial accounting.

Deferred tax liabilities were recognized in the amount of income to be included in taxation of subsequent periods:

in excess of the available-for-sale securities portfolio value in the financial accounting over the purchase cost in tax accounting.

In 2016 the Bank recorded the taxable amount of UAH 59 236 thousand.

Note 4.18. Share capital

The share capital represent liabilities regarding cash contributions paid by the Shareholders the amount of which is determined in the statutory manner.

According to the Laws of Ukraine "On Banks and Banking Activity" and "On Joint Stock Companies" and the Bank's Charter, the decision on equity issue is taken at the General Meeting of the Shareholders.

Note 4.19. Dividends

Dividends represent a portion of the Bank's profit distributed between the Shareholders based on each of their shares to the extent determined by the General Meeting of the Shareholders within a period not later than six months after the end of the reporting year. Bank pays dividends entirely in cash.

Note 4.20. Income and expense recognition

Income and expenses are recognized according to the principles of accrual, correspondence of income and expenses, prudence.

Income and expenses are recognized by the Bank, provided there is a high probability that the Bank will receive economic benefits.

As a result of operating activities the following income and expenses arise at the Bank:

interest income and expenses;

fee and commission income and expenses;

profits (losses) on trading transactions;
dividend yield;
cost of formation of special provision;
income from repayment of assets previously written off;
other operating income and expenses;
general administrative expenses;
income tax.

Interest income and expenses are operating income and expenses obtained (paid) by the Bank for the use of cash, cash equivalents or amounts owed to the Bank (raised by the Bank), amounts of which are calculated in proportion to time using the effective interest rate. They include:

income (expenses) from operations with funds placed in other banks (attracted from other banks);
income (expense) on loans and deposits granted (received) to legal entities and individuals, and on other financial instruments, including securities;
income in the form of a discount (premium) amortization.

Interest and related commissions are charged at least once a month, irrespective of the actual frequency of settlements with a counterparty stipulated by an agreement.

Fee and commission income and expenses (hereinafter – "the commissions") - operating income and expenses for provided (received) services, the amount of which is calculated in proportion to the amount of an asset or liability, or is fixed. The commissions for provided (received) services depending on the purpose of evaluation and accounting base of an associated financial instrument are divided into:

the commissions that are an essential part of income (expenses) of a financial instrument;
the commissions received (paid) at the time of service provision are recognized as income (expenses);
the commissions received (paid) after certain actions are recognized as income (loss) after completion of a certain operation.

Fee and commission income (expenses) for services provided continuously (cash management services) were accounted for during the whole contractual period.

Profits (losses) from trading operations – a result (profit or loss) from operations of purchase and sale of various financial instruments. The Bank recognizes profits and losses regarding securities transactions, foreign currency transactions, bullion (banking metals) transactions from:

sale of financial investments;
changes in valuation (revaluation) of investments to fair value;
assets and liabilities revaluation result in foreign currency and banking metals in case of a change of the official UAH rate against foreign currencies (banking metals).

Dividend yield - income generated from the Bank's use of securities with variable income.

Expenses on the special provisions formation are expenses to cover possible losses from the Bank's assets impairment and bad assets write-off.

Income from repayment of assets previously written off are the funds obtained for debt repayment recognized by the Bank as a bad debt.

Other operating income and expenses are income and expenses from transactions not related to investing and financing activities, as well as those not included in the above groups of operating income and expenses, including:

income (loss) from operating leasing;
expenses for audit services;
cash collection expenses;

forfeit (penalties, fines) received (paid) for banking operations, others.

General administrative expenses are operating expenses incurred to ensure that the Bank will be able to continue as a going concern. These include staff costs (salaries, social security costs, mandatory charges, insurance, additional payments, bonuses, training, etc.); amortization of intangible assets; costs of maintenance and operation of fixed and intangible assets (repairs, insurance); other operating expenses (utilities, security, etc.); fees for professional services (legal, etc.); communication costs (postage, telephone, etc.); payment of taxes and other mandatory payments, other than income tax, and other expenses aimed at maintenance and management of the Bank.

Income tax – the Bank's operating expenses related to tax payment in accordance with the current legislation of Ukraine and the requirements of international accounting standards and national regulations (standards) of accounting regarding the recognition of deferred tax liabilities and tax assets.

Income and expenses recognized by the Bank are grouped according to their nature in the relevant items of the financial statements in the "statement of comprehensive income". In order to determine the financial result of the reporting period the income of the reporting period is reconciled with the expenses incurred to obtain this income. Income and expenses are accounted for as incurred, regardless of the date of receipt or payment of cash assets. Income and expenses of the Bank are accounted for using the basic accounting principles, in particular, accrual, matching and prudence concepts.

Note 4.21. Foreign currency revaluation

Income and expenses in foreign currencies were disclosed in the statement of comprehensive income at the official foreign exchange rate set by the National Bank of Ukraine at the transaction date. Foreign exchange differences arising in respect of foreign currency transactions are recognized as income or expenses of the reporting period.

The Bank's assets and liabilities in foreign currencies are stated at the official foreign exchange rate as at the reporting date as follows:

840=USD=100=UAH 2719.0858

978=EUR=100=UAH 2842.2604

The official foreign exchange rates as at 31 December 2015 were as follows:

840=USD=100=UAH 2400.0667

978=EUR=100=UAH 2622.3129

Monetary balance sheet items in foreign currencies are accounted for using the current foreign exchange rate; non-monetary items stated at historical cost, deposit of which to the balance is related to a foreign currency transaction, are accounted for at the foreign exchange rate at a transaction date. All foreign currency accounts are revalued every time the official foreign currency rate of the National Bank of Ukraine changes.

The Bank's Management policy regarding the risk of losses due to changes in foreign exchange rates is disclosed in Corporate information and Financial risk management.

Note 4.22. Mutual offset of assets and liabilities

Financial assets and liabilities with subsequent inclusion in the statement of financial position of only their net amount can be mutually offset only if there is a legally enforceable right to offset the recognized amounts, if there is an intention to settle a transaction on a net basis or to realize simultaneously an asset and settle a liability.

The Bank did not offset assets and liabilities during the reporting period.

Note 4.23. Employee benefits and related charges

The Bank recognizes expenses for employee benefits at least once a month in profit and loss and other comprehensive income. These payments include principal and additional salaries, payment of annual principal and additional vacations, compensation for the first 5 days of temporary disability, bonuses and rewards, an allowance for unused vacations, costs for occupational pension scheme, payroll tax and social security tax costs.

Note 4.24. Business segment reporting

The Bank primarily focuses on one business segment, namely treasury operations, which includes:

activities in the monetary market regarding attraction and investment of funds in the interbank market of Ukraine;

foreign exchange market services including foreign currency transactions at the customers' disposal and at the Bank's expense.

transactions with securities in the Bank's portfolio.

Other operations comprised assets (liabilities) not included in the main segment, such as cash, correspondent accounts in the National Bank of Ukraine, liabilities related to the administrative and economic activities of the Bank, settlements with employees, settlements in respect of taxes and levies to the state and local budgets, to the Pension Fund, other extra budgetary funds.

During 2016, the Bank did not apply transfer pricing methods in the preparation of financial statements by business segments, given the characteristics of the organizational structure.

Note 4.25. Significant accounting estimates and assumptions

The Bank in its operational, financial, investment and economic activities makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually revised and are based on the Management's experience and other factors, including expectations of future events that are considered to be reasonable for the circumstances. In addition to the judgments that provide for estimates, the Management also uses assumptions in applying the accounting policies. The results of review of estimates and assumptions are recognized in the review period and valid until the next revision of estimates and assumptions.

Assumptions that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause significant adjustments to the carrying amount of assets and liabilities within subsequent financial periods include:

Related party transactions

In the normal course of business, the Bank enters into transactions with related parties. In the absence of an active market for such transactions, assumptions are used. The basis for assumptions is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Initial value of financial instruments

The Bank shall account for financial instruments at fair value at initial recognition. In the absence of an active market for the relevant financial instruments to determine their market (non-market) rates, assumptions are used on the basis of agreements between independent, knowledgeable, and interested parties.

Going concern

The fundamental assumption of the financial statements' preparation is the going concern assumption - the Bank prepares its financial statements on the assumption that it is able to continue its activities in the foreseeable future as a going concern, has neither the intention nor the need for the elimination or significant reduction in the volume of transactions.

Note 4.26. Related party transactions

During 2016, the Bank carried out transactions with related parties, detailed information regarding which is disclosed in the relevant note.

Note 5. Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but comparative information is not compulsory. The requirements for hedge accounting are mainly applied prospectively, with some limited exceptions.

The Bank plans to adopt the new standard when it becomes effective. In 2017, the Bank plans to make an overall assessment of the impact of all three parts of IFRS 9. The expected impact of new requirements on the balance sheet and equity will be determined as a result of a more detailed analysis or additional substantiated and confirmed information available to the Bank in the future.

(a) Classification and Measurement

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

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

(b) Hedge Accounting

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

IFRS 15 Revenue from Contracts with Customers

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

The new standard on revenue recognition replaces any current requirements to revenue recognition contained in other IFRSs. The standard requires either a full retrospective approach or a modified retrospective approach for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank plans to apply the full version of the retrospective approach of the new standard from the required effective date. In 2016, the Bank conducted

a preliminary assessment of the impact of IFRS 15, the results of which may be found within a more detailed continuing analysis. In addition, the Bank takes into account amendments issued by the IASB in April 2016 and will monitor changes in the future.

IFRS 15 contains more detailed requirements for the presentation and disclosure of information compared to existing IFRS. Presentation requirements introduce significant changes to existing practices and significantly increase the amount of information required for disclosure in the financial statements. A number of disclosure requirements in IFRS 15 are brand new. During 2017, the Bank plans to develop and implement appropriate testing systems, internal controls, policies and processes necessary for the collection and disclosure of relevant information.

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

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

IFRS 16 Leases

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

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

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

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

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

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

Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiative

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

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

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

- Unrealized loss on a debt instrument measured at fair value gives rise to a deductible temporary difference when the holder expects to recover the carrying amount of the asset by holding it to maturity and collecting all the contractual cash flows.
- The carrying amount of an asset does not limit the estimates of the expectable future taxable income.
- The estimates of future taxable income do not account for tax liabilities as a result of the reversal of temporary tax differences.
- An entity measures a deferred tax asset in combination with other deferred tax assets. Where the tax law restricts the use of tax losses, an entity will assess the deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual reporting periods beginning on or after 1 January 2017. The Bank is currently assessing the impact of application of these amendments on future financial statements of the Bank.

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

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

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

6. Cash and cash equivalents

	2016	2015
Cash with the National Bank of Ukraine	31 127	4 703
Total cash and cash equivalents	**31 127**	**4 703**

Cash and cash equivalents for the purposes of preparation of statement of cash flows:

	2016	2015
Cash with the National Bank of Ukraine	31 127	4 703
Due to other banks	450 275	188 024
Total cash and cash equivalents	**481 402**	**192 727**

7. Due from other banks

Table 7.1. Due from other banks

	2016	2015
Correspondent accounts at other banks	450 328	188 731
Purchase and reverse sale contracts	-	32 763
Due to other banks	248 917	301 042
Short-term loans	248 917	301 042
Provisions for impairment of due from other banks	(135 610)	(134 070)
Total due from other banks less provisions	**563 635**	**388 466**

Bank balances are placed at correspondent accounts with resident banks of Ukraine, not adjudged bankrupt or under liquidation, or forced into temporary administration.

The structure of due from other banks comprises interest in the amount of UAH 270 thousand as at 31 December 2016.

Table 7.2. Loan quality analysis related to due from other banks as at 31 December 2016

	Correspondent accounts	Loans	Total
Undue and non-impaired:	450 328	248 917	**699 245**
with 20 largest banks of Ukraine	450 323	145 127	**595 450**
with other banks of Ukraine	5	103 790	**103 795**
with large banks of OECD countries	-	-	**-**
Provisions for impairment of due from other banks	(85 558)	(50 052)	**(135 610)**
Total due from other banks less provisions	**364 770**	**198 865**	**563 635**

Table 7.3. Analysis of changes in provisions for impairment of due from other banks

	2016	2015
Provisions for impairment as at the beginning of the period	(134 070)	(42 015)
Increase in provision for impairment during the year	(1 540)	(92 055)
Provisions for impairment as at the end of the period	**(135 610)**	**(134 070)**

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers

	2016	2015
Loans to legal entities	52 712	8 817
Provision for loan impairment	(8 446)	(4 408)
Total loans to customers less provisions	**44 266**	**4 409**

The structure of loans to legal entities comprises a loan to the Bank's related person in the amount of UAH 12 007 thousand.

Table 8.2. **Analysis of changes in loan loss provisions for the reporting period**

	Loans to legal entities	Total
Opening balance:	(4 408)	(4 408)
Increase in provision during the year	(4 038)	(4 038)
Closing balance	**(8 446)**	**(8 446)**

Table 8.3 Loan structure by types of economic activities

	2016		2015	
	amount	%	amount	%
Health care	12 007	23	8 817	100
Wholesale of beverages	40 705	77	-	-
Total loans and advances to customers except for provisions	**52 712**	**100**	**8 817**	**100**

Table 8.4. Information on loans within the type of collateral for the reporting period

	Loans to legal entities	Total
Loans unsecured	40 705	40 705
Loans secured by:	12 007	12 007
real estate	7 198	7 198
including residential housing	6 737	6 737
other assets	4 809	4 809
Total loans and advances to customers except for provisions	52 712	52 712

Collateral value in this Note is indicated in the amount of future expected cash flows from collateral with regard to the collateral's liquidity ratio and implementation costs, according to the internal regulations of the Bank.

Table 8.5. Analysis of loan quality for the reporting period

	Loans to legal entities	Total
Undue and non-impaired:	52 712	52 712
Loans to large and medium businesses	40 705	40 705
Loans to small-sized businesses	12 007	12 007
Total loan amount before deducting provisions	52 712	52 712
Provisions for loan impairment	(8 446)	(8 446)
Total loans less provisions	**44 266**	**44 266**

Table 8.6. Impact of collateral value on loan quality as at the reporting date

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	52 712	-	52 712
Total loans	**52 712**	**-**	**52 712**

When calculating the allowance for impairment of financial instruments to comply with the principle of prudence, the Bank only considers highly liquid collateral, enforced collection of which is more reliable.

Note 9. Available-for-sale securities in the Bank portfolio

Table 9.1. Available-for-sale securities in the Bank portfolio

	2016	2015
Debt securities	575 968	20 930
Deposit certificates of the National Bank of Ukraine	163 043	20 930
Government bonds	412 925	-
Provision for impairment of available-for-sale securities in the Bank portfolio	–	–
Total available-for-sale securities less provisions	**575 968**	**20 930**

The structure of available-for-sale securities comprises accrued interest in the amount of UAH 17 256 thousand as at 31 December 2016.

Table 9.2. Loan quality analysis related to debt securities available-for-sale in the Bank portfolio as at 31 December 2016

	Government bonds	Total
Undue and non-impaired:	575 968	575 968
State institutions and enterprises	575 968	575 968
Provision for impairment of available-for-sale securities in the Bank portfolio	-	-
Total debt securities available-for-sale in the Bank portfolio less provisions	**575 968**	**575 968**

Table 9.3. Loan quality analysis related to debt securities available-for-sale in the Bank portfolio as at 31 December 2015

	Government bonds	Total
Undue and non-impaired:	20 930	20 930
State institutions and enterprises	20 930	20 930
Provision for impairment of available-for-sale securities in the Bank portfolio	-	-
Total debt securities available-for-sale in the Bank portfolio less provisions	**20 930**	**20 930**

Note 10. Held-to-maturity securities in the Bank portfolio

Table 10.1. Held-to-maturity securities in the Bank portfolio

	2016	2015
Deposit certificates of the National Bank of Ukraine	113 074	31 015
Provisions for impairment of held-to-maturity securities in the Bank portfolio	-	-
Total held-to-maturity securities less provisions	113 074	31 015

The structure of held-to-maturity securities in the Bank portfolio comprises interest in the amount of UAH 74 thousand as at 31 December 2016.

(in UAH thousand)

Table 10.2. Loan quality analysis related to debt securities held-to-maturity in the Bank portfolio as at 31 December 2016

	Government bonds	Total
Undue and non-impaired:	113 074	113 074
State institutions and enterprises	113 074	113 074
Provision for impairment of held-to-maturity securities in the Bank portfolio	-	-
Total held-to-maturity securities less provisions	**113 074**	**113 074**

Table 10.3. Loan quality analysis related to debt securities held-to-maturity in the Bank portfolio as at 31 December 2015

	Government bonds	Total
Undue and non-impaired:	31 015	31 015
State institutions and enterprises	31 015	31 015
Provision for impairment of held-to-maturity securities in the Bank portfolio	-	-
Total held-to-maturity securities less provisions	**31 015**	**31 015**

Note 11. Fixed and intangible assets

As at 31 December 2015, the Bank has no:

fixed assets, possession, use or disposal of which is restricted by the current legislation;
fixed assets pledged, withdrawn from service, temporarily not used or transferred to assets for sale;
intangible assets, ownership of which is restricted or property rights are not registered;
increase or decrease arising from revaluations and as a result of impairment losses recognized or created directly in equity.

Initial value of fully depreciated fixed tangible assets is UAH 732,8 thousand.

	Machinery and equipment	Instruments, fixtures and fittings	Other fixed tangible assets	Capital investments in progress	Intangible assets	Total
Carrying amount as at 1 January 2015	**620**	**209**	**313**	**14**	**2 466**	**3622**
Historical cost	761	273	640	14	2 679	4 367
Depreciation	(141)	(64)	(327)	–	(213)	(745)
Proceeds	-	-	1	10	-	11
Capital investments into fixed assets completion and intangible assets improvement	55	-	-	(13)	62	104
Amortization charges	(159)	(69)	(189)	–	(283)	(700)
Carrying amount as at 1 January 2015	**516**	**140**	**125**	**11**	**2 245**	**3 037**
Historical cost	816	273	641	11	2 741	4 482
Depreciation	(300)	(133)	(516)	-	(496)	(1 445)
Proceeds	260	-	92	-	42	394
Capital investments into fixed assets completion and intangible assets improvement	7	-	-	(11)	131	127
Disposals		(5)			(1 031)	(1 036)
Accumulated depreciation written-off upon disposal		3			274	277
Amortization charges	(197)	(67)	(217)	-	(270)	(751)
Carrying amount as at 1 January 2016	**586**	**71**	**-**	**-**	**1 391**	**2 048**
Historical cost	1 083	268	733	-	1 883	3 967
Depreciation	(497)	(197)	(733)	-	(492)	(1 919)

Note 12. Other financial assets

Table 12.1. Other financial assets

	2016	2015
Other including:	521	9
-positive revaluation on derivatives	253	
-income for services accrued	268	9
Provisions for other financial assets impairment	(16)	(1)
Total other financial assets less provisions	**505**	**8**

Table 12.2. Analysis of changes in provisions for other financial assets impairment for the reporting period

	Other financial assets	Total
Opening balance:	1	1
(Increase)/decrease of the provisions during the period	15	15
Closing balance	**16**	**16**

Table 12.3. Analysis of other financial assets loan quality for 2016

	Other financial assets	Total
Undue and non-impaired debt	521	521
Total other financial assets before deducting provisions	521	521
Provisions for loan impairment	(16)	(16)
Total other financial assets less provisions	**505**	**505**

Table 12.4. Analysis of other financial assets loan quality for 2015

	Other financial assets	Total
Undue and non-impaired debt	9	9
Total other financial assets before deducting provisions	9	9
Provisions for loan impairment	(1)	(1)
Total other financial assets less provisions	**8**	**8**

Note 13. Other assets

	2016	2015
Prepayments for services	3	56
Deferred expenses	1 012	1 234
Other	25	25
Provisions for other assets	-	-
Total other assets less provisions	**1 040**	**1 315**

Note 14. Due to other banks

Table 14.1 Due to other banks

	2016	2015
Sale and repurchase agreements with other banks	86 486	-
Total due to other banks	**86 486**	**-**

Note 15. Due to customers

Table 15.1 Due to customers

	2016	2015
State organizations:	**1 140**	**1 246**
-Current accounts	35	144
-Term deposits	1 105	1 102
Other legal entities:	**1 010 221**	**2630**
-Current accounts	973 466	187 861
-Term deposits	36 755	76 099
Private individuals:	**8 668**	**9 641**
-Current accounts	6 513	4 754
-Term deposits	2 155	4 887
Total due to customers	**1 020 029**	**274 847**

Table 15.2 Customer funds allocation by economic activities

	2016		2015	
	amount	%	amount	%
Financial and insurance activities	313 092	30,69	113 398	41,26
Services (financial)	4 775	0,47	31 873	11,60
Information and telecommunications	3 621	0,35	7 406	2,70
Trading	57 306	5,62	23 986	8,73
Agriculture	154	0,02	35 208	12,81
Fishery	172	0,02	5 500	2,00
Storage facilities and transportation supporting activities	15	0,00	1 940	0,70
Mining	280 238	27,47	-	-
Electricity supply	38 464	3,77	-	-
Consulting	1	0,00	5	0,00
Government organizations	1 140	0,11	1 246	0,45
Production	276 404	27,10	15	0,01
Health care	337	0,03	-	-
Property transactions	9 670	0,95	553	0,20
Private individuals, including non-residents	8 668	0,85	9 641	3,50
Investors-non-residents	25 972	2,55	44 076	16,04
Total customer funds	**1 020 029**	**100,00**	**274 847**	**100,00**

Note 16. Other financial liabilities

	2016	2015
Accounts payable for foreign currency transactions	5 216	1 020
Accounts payable for customer transactions	5	2 450
Accounts payable for accrued expenses	29	134
Derivative financial liabilities	1 705	4 605
Other financial liabilities	1	1
Total	**6 955**	**8 210**

Note 17. Provisions for liabilities

	Loan liabilities	Total
Opening balance	157	157
Creation and/ or increase of provisions	13	13
Fees and commissions received for guarantees issued	-	-
Depreciation of fees and commissions received for guarantees issued recognized in the Statement of comprehensive income	-	-
Closing balance	**170**	**170**

Provisions for liabilities consist of reserves for possible impairment losses on provided financial guarantees with maturity in 2017.

Note 18. Other liabilities

	2016	2015
Accounts payable for settlements with employees	3 805	2 967
Accounts payable for taxes and charges apart from income tax	24	37
Other accounts payable	10	-
Expenses for telecommunication and operation services	35	72
Total	**3 874**	**3 076**

Note 19. Share capital

(in thousand shares)

	Number of shares in circulation (ths. pcs.)	Ordinary shares	Preferred shares	Total
Balance as at 1 January 2016	122 000	122 000	–	122 000
Contributions on newly issued shares (unit shares, stocks)	-	-	–	-
Balance as at 31 December 2016	122 000	122 000		122 000
Balance as at 31 December 2016	**122 000**	**122 000**		**122 000**

As at 31 December 2016, the share capital amounts to UAH 162 382 thousand. The share capital is divided into 122 000 ordinary registered shares paid in full. During the year the Bank registered an increase in ordinary registered share denomination by means of profits of previous years; an ordinary registered share denomination at the end of 2016 amounted to UAH 1 331.

Ordinary registered shares entitle a shareholder to participate in the management of the Bank, receive dividends, use the preferential right to purchase additionally issued shares if such shares are privately placed, dispose own shares, receive in case of liquidation of the Bank a part of its assets or value of assets. One ordinary share gives the shareholder one voice to address every issue at the General Meeting, except in cases of cumulative voting. Payment of dividends to shareholders based on each of their shares of a certain type is made of net profit for the reporting year and/or retained earnings in the amount determined by the Decision of the General Meeting within a period not later than six months after the end of the year. The Bank pays dividends entirely in cash.

There was no repurchase of own stock during the reporting period. Dividends were not declared to be payable and were not paid accordingly.

Note 20. Revaluation reserves (other comprehensive income components)

	2016	2015
Revaluation of available-for-sale securities in the Bank portfolio:	(96)	-
Revaluation changes to fair value	(96)	-
Income tax related to:	**17**	
Change in reserve for revaluation of available-for-sale securities in the bank portfolio	17	-
Total revaluation reserves (other comprehensive income)	**(79)**	**-**

Note 21. Analysis of assets and liabilities by maturities

		2016			2015		
	(Note)	Less than 12 months	More than 12 months	**Total**	Less than 12 months	More than 12 months	**Total**
Assets							
Cash and cash equivalents	6	31 127	-	31 127	4 703	-	4 703
Due from other banks	7	563 635	-	563 635	388 466	-	388 466
Loans to customers and customer debts	8	38 262	6 004	44 266		4 409	4 409
Available-for-sale securities in the Bank portfolio	9	575 968	-	575 968	20 930	-	20 930
Held-to-maturity securities in the Bank portfolio	10	113 074	-	113 074	31 015	-	31 015
Income tax receivables	26	1 172	105	1 277	2 744	112	2 856
Fixed assets	11	-	2 048	2 048	-	3 037	3 037
Other accrued income	12	505	-	505	8	-	8
Other assets	13	683	357	1 040	602	713	1 315
Total assets		**1 324 426**	**8 514**	**1 332 940**	**448 468**	**8 271**	**456 739**
Liabilities							
Due to other banks	14	86 486	-	86 486	98 405	-	98 405
Due to customers	15	1020 029	-	1020 029	274 847	-	274 847
Accounts payable	18	6 247	-	6 247	8 953	-	8 953
Other financial liabilities	16,17	7 125	-	7 125	8 367	-	8 367
Total liabilities		**1 119 887**	**-**	**1 119 887**	**292 167**	**-**	**292 167**

Note 22. Interest income and expenses

	2016	2015
ıterest income:		
ebt securities available for sale in the Bank portfolio	61 695	18 964
ebt securities held to maturity in the Bank portfolio	2 672	6 438
ue from other banks	17 756	23 595
orrespondent accounts in other banks	2 489	13 078
ɔans and advances to customers	7 884	3 504
Total interest income	**92 496**	**65 579**
ıterest expenses:		
ɹnds received from the NBU	(6)	-
ɛrm deposits to other banks	(23 103)	(4 449)
ɛgal entities term deposits	(4 357)	(9 796)
urrent accounts	(25 972)	(6 404)
ɾivate individuals term deposits	(287)	(271)
ɔtal interest expenses	**(53 725)**	**(20 920)**
et interest income/(expenses)	**38 771**	**44 659**

Note 23. Fee and commission income and expenses

	2016	2015
Fee and commission income		
Settlement and cash transactions	2 873	513
Currency market trading	4 761	958
Guarantee transactions	670	52
Other	4	6
Total fee and commission income	**8 308**	**1 529**
Fee and commission expenses		
Settlement and cash transactions	(1 802)	(1 356)
Securities trading	(34)	(3)
Other	(15)	(11)
Total fee and commission expenses	**(1 851)**	**(1 370)**
Net fee and commission income/expense	**6 457**	**159**

Note 24. Administrative and other operating expenses

	2016	2015
Staff costs	(17 415)	(12 260)
Fixed and intangible assets maintenance	(763)	(599)
Operating leasing (rent)	(684)	(568)
Depreciation and amortization	(751)	(701)
Audit expenses	(123)	(185)
Communication expenses	(1 716)	(1 559)
Other taxes and mandatory fees, except for income tax	(170)	(219)
Operating and household services	(527)	(404)
Costs of voluntary medical insurance of employees	(182)	-
Negative result on disposal of fixed assets	(758)	-
Other	(1 209)	(1 100)
Total administrative and other operating expenses	**(24 298)**	**(17 595)**

Average number of the Bank's employees in 2016 amounted to 24 persons.
The structure of staff costs includes:

- salaries and wages amounting to UAH 14 536 thousand;
- formation of allowance for unused vacations - UAH 1 069 thousand;
- social security tax - UAH 1 701 thousand;
- contributions to non-state pension provision - UAH 109 thousand.

Note 25. Result from liability transactions at fair value through profit or loss

Table 25.1 Result from liability transactions at fair value through profit or loss for 2016

	Gains less losses for transactions with other financial liabilities
Derivative financial liabilities	5 395
Total result from liability transactions at fair value through profit or loss	**5 395**

Table 25.2 Result from liability transactions at fair value through profit or loss for 2015

	Gains less losses for transactions with other financial liabilities
Derivative financial liabilities	7 942
Total result from liability transactions at fair value through profit or loss	**7 942**

Note 26. Income tax expenses

Table 26.1 Income tax expenses

	2016	2015
Current income tax	(10 651)	(5 877)
Change of deferred income tax	(24)	(159)
Total income tax expenses	**(10 675)**	**(6 036)**

Table 26.2 Reconciliation of accounting income/loss and taxable income/loss

	2016	2015
Income before tax	59 235	33 320
Theoretical tax liabilities at the relevant tax rate	(10 662)	(5 997)
Expenses not included in the amount of taxable income, but recognized in accounting records aiming at calculation of:	(31)	(60)
expenses for reserve formation	(5)	(29)
administrative expenses	(26)	(31)
Expenses of prior periods recognized in current accounting records	42	180
Change in deferred income tax	(24)	(159)
Amount of income tax expenses	**(10 675)**	**(6 036)**

Table 26.3.1 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2016

	Balance as at 31 December 2015	Recognized in statement of comprehensive income	Recognized in equity	Balance as at 31 December 2016
Deferred tax asset due to:				
Excess of acquisition cost in tax accounting over cost of securities in the Bank portfolio	-	-	17	17
Depreciation allowance	59	18	-	77
Formation of allowance for unused vacations	53	(42)	-	11
Net deferred tax asset/(liability)	**112**	**(24)**	**17**	**105**

Table 26.3.2 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2015

	Balance as at 31 December 2014	Recognized in statement of comprehensive income	Recognized in equity	Balance as at 31 December 2015
Deferred tax asset due to:				
Excess of acquisition cost in tax accounting over cost of securities in the Bank portfolio	-	-	-	-
Depreciation allowance	38	21	-	59
Accrual of provisions for payment of bonuses	180	(180)		-
Formation of allowance for unused vacations	53	-	-	53
Net deferred tax asset/(liability)	**271**	**(159)**	**-**	**112**

Note 27. Profit/(loss) per one ordinary and preferred share

Table 27.1 Net and adjusted profit/(loss) per one ordinary and preferred share

	2016	2015
Profit /(loss) attributable to Bank ordinary Shareholders (UAH thousand)	48 560	27 284
Annual profit/(loss) (UAH thousand)	48 560	27 284
Average annual number of ordinary shares outstanding (thousand, pcs)	122	122
Net profit/ (loss) per an ordinary share (UAH)	**398,03**	**223,64**
Adjusted net income/ (loss) per an ordinary share, UAH	**398,03**	**223,64**

Table 27.2 Calculation of profit/(loss) attributable to the Bank ordinary and preference Shareholders

	2016	2015
Profit /(loss) for the year attributable to Bank Shareholders	48 560	27 284
Retained earnings/(losses) for the year	48 560	27 284
Retained earnings/(losses) for the year attributable to Bank ordinary Shareholders depending on terms of shares	48 560	27 284
Profit/ (loss) attributable to Bank ordinary Shareholders	48 560	27 284

Note 28. Operating segments

Table 28.1. Income, expenses and operating segment results for 2016

	Operating segments		Total
	Treasury operations	**Other**	
Interest income	92 496	-	92 496
Fee and commission income	5 431	2 877	8 308
Gains on securities trading in the Bank trading portfolio	1 727	-	1 727
Gains on other financial instruments revaluation	5 395	–	5 395
Gains on foreign currency transactions	36 791	–	36 791
Total income	**141 840**	**2 877**	**144 717**
Interest expenses	(53 725)	-	(53 725)
Allocation to provision for loan impairment and due from other banks	(5 578)	-	(5 578)
Allocation to provision for impairment of receivables and other financial assets	(16)	-	(16)
Allocations to provision for liabilities	(14)	-	(14)
Fee and commission expenses	(34)	(1 817)	(1 851)
Administrative expenses	(24 298)	-	(24 298)
Total expenses	**(83 665)**	**(1 817)**	**(85 482)**
Income tax expenses	(10 675)	-	(10 675)

Table 28.2 Assets and liabilities of operating segments for 2016

	Operating segments		Total
	Treasury operations	**Other**	
Segment assets	1 255 230	77 710	1 332 940
Total assets	**1 255 230**	**77 710**	**1 332 940**
Segment liabilities	1 113 640	6 247	1 119 887
Total liabilities	**1 113 640**	**6 247**	**1 119 887**

Table 28.3. Income, expenses and operating segment results for 2015

	Operating segments		Total
	Treasury operations	Other	
Interest income	65 579	-	65 579
Fee and commission income	1 011	518	1 529
Gains on securities trading in the Bank trading portfolio	2 832	-	2 832
Gains on other financial instruments revaluation	7 942	–	7 942
Gains on foreign currency transactions	91 944	–	91 944
Total income	**169 308**	**518**	**169 826**
Interest expenses	(20 920)	-	(20 920)
Allocation to provision for loan impairment and due from other banks	(96 463)	-	(96 463)
Allocation to provision for impairment of receivables and other financial assets	(1)	-	(1)
Allocations to provision for liabilities	(157)	-	(157)
Fee and commission expenses	(3)	(1 367)	(1 370)
Administrative expenses	(17 595)	-	(17 595)
Total expenses	**(135 139)**	**(1 367)**	**(136 506)**
Income tax expenses	(6 036)	-	(6 036)

Table 28.4 Assets and liabilities of operating segments for 2015

	Operating segments		Total
	Treasury operations	Other	
Segment assets	443 454	13 285	456 739
Total assets	**443 454**	**13 285**	**456 739**
Segment liabilities	283 214	8 953	292 167
Total liabilities	**283 214**	**8 953**	**292 167**

Note 29. Financial risk management

The Bank developed and implemented the procedures for risk management and control. The risk management process is based on relevant regulations of the National Bank of Ukraine. The risk management process at the Bank consists of the prevention, identification, measurement, analysis, actions, control and monitoring, as well as reporting.

Credit risk

Credit risk management, limitation of its negative impact on the Bank's activities is one of the key tasks of strategic management. According to the recommendations of the Basel Committee on Banking Supervision, the Bank uses the standardized approach for credit risk assessment. In the process of credit risk management both quantitative risk assessment and qualitative (expert) risk assessment methods are used.

In order to manage credit risk in transactions with legal entities and individuals the Bank adheres to the following principles of the credit policy:

- investments exclusively in profitable and high-quality credit assets;
- well-balanced approach to lending of corporate customers based on the analysis of financial indicators, activities of entities, markets, industry trends, etc.;
- application of the borrower's identification principle "Know Your Customer";
- a decision on credit provision is based on the qualitative analysis of the borrower's solvency, loan repayment sources and the entity's expected future development;
- diversification of loan portfolio with regard to industry risks, a tendency towards influence of global trends, export orientation, market volatility.

The ratio of maximum credit risk exposure per a borrower or a group of borrowers (hereinafter - N7) shall not exceed 25% of the Bank's regulatory capital. As at 31 December 2016, N7 amounted to 15,36%.

Market risk

The Bank's risk management system is aimed at ensuring the implementation of business goals defined under the Bank's development strategy and enhancing its value, optimization of the potential opportunities and risks ratio, the Bank's capital stock and growth rate.

The main instrument in implementation of these objectives is a comprehensive risk management system established at the Bank that provides action coordination across all the Bank's departments within a single risk management strategy, approved by the Supervisory Board. Formation of the integrated system is aimed at maximum concentration of risk management functions at the managing underwriter level. This approach is implemented through specified procedures and regulations of the Bank, providing a set of limits and transaction rules for regional institutions.

Foreign currency risk

Table 29.1 Foreign currency risk analysis

Currency	As at 31 December 2016			As at 31 December 2015		
	Monetary assets	Monetary liabilities	Net foreign exchange position	Monetary assets	Monetary liabilities	Net foreign exchange position
USD	393 588	293 933	99 655	202 818	100 697	102 121
EUR	1 879	6 082	(4 203)	1 754	4 826	(3 072)
RUR	145	0	145	277	317	(40)

Total	**395 612**	**300 015**	**95 597**	**204 849**	**105 840**	**99 009**

The risk of financial losses and the possibility of decrease in the cost of capital resulting from changes in foreign exchange rates and prices for precious metals, unfavorable (opposite) for existing open currency positions, is an important type of risk, which arises in the course of the Bank's activities. The amount of possible financial losses depends on the size of the open currency positions and changes in relevant foreign currencies.

Basic methods and models of currency risk management are determined in the "Regulations on currency risk management at PJSC "BANK AVANGARD".

The internal limits for total open foreign exchange position by types of currencies are established at the Bank. The methodology and mechanisms of foreign currency risk management are updated constantly.

The process of foreign currency risk management at the Bank provides for daily monitoring of the compliance of the maximum possible open foreign exchange positions on the basis of acceptable values of capital at risk to the established limits of open currency positions, analysis of volatility in exchange rates and the amount of the foreign currency risk under regular and stress conditions.

Parametric assessment methods based on the assumption of normal distribution of currency fluctuation disturbances (Value-at-Risk methodology, etc.) appeared to be unsuitable for predicting the foreign currency risk magnitude at the Bank. In this situation, based on the analysis of currency fluctuations, a risk magnitude was estimated for each open currency position, as well as an acceptable risk magnitude. Accordingly, the limits for open currency positions were set that represent a subject to daily control of the risk management department and an instrument of foreign currency risk exposure limitation.

Table 29.2 Changes in profit or loss and shareholders' equity due to possible changes of UAH official exchange rate against foreign currencies determined as at the reporting date providing that all other variables remain fixed

	2016		2015	
	Impact on profit/ (loss)	**Impact on equity**	**Impact on profit/ (loss)**	**Impact on equity**
USD strengthening by 25%	(2 181)	(2 181)	657	657
USD weakening by 25%	2 181	2 181	(657)	(657)
EUR strengthening by 25%	(1 672)	(1 672)	(1 866)	(1 866)
EUR weakening by 25%	1 672	1 672	1 866	1 866
RUR strengthening by 25%	31	31	1	1
RUR weakening by 25%	(31)	(31)	(1)	(1)

A model of control over capital adequacy level is established at the Bank in order to ensure the sustainability of the Bank's activities, the regulatory capital formation in accordance with the requirements of the National Bank of Ukraine and with regard to the minimum capital requirements set by the Basel Committee on Banking Supervision, as well as for the assessment and monitoring of capital adequacy taking into account all the risks regarding the Bank's continual activities in every direction.

The risk of financial losses and the possibility of decrease in the cost of capital resulting from changes in foreign exchange rates and prices for precious metals, unfavorable (opposite) for existing open currency positions, is an important type of risk, which arises in the course of the

Bank's activities. The amount of possible financial losses depends on the size of the open currency positions and changes in relevant foreign currencies. The analysis of the impact of a projected change in foreign exchange rates on the Bank's financial result is conducted by using approaches developed by the Bank.

The Bank does not consider other risks to be significant for its activities, therefore the Bank does not monitor them.

Interest rate risk

Table 29.3 General analysis of interest rate risk

Item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Interest-free	Total
2016						
Total financial assets	1 291 444	-	-	6 004	31 127	1 328 575
Total financial liabilities	769 258	20 085	1 545	–	322 752	1 113 640
Net GAP on interest-bearing assets and liabilities as at 31 December	522 186	(20 085)	(1 545)	6 004	(291 625)	214 935

Table 29.4 Monitoring of interest rates on financial instruments

(%)

	2016				2015			
	UAH	USD	EUR	other	UAH	USD	EUR	other
Assets								
Cash and cash equivalents	0.0	0.00	0.0	0.0	0.0	0.00	0.0	0.0
Due from other banks	12.6	0.00	0.0	0.0	20.9	6.00	0.0	0.0
Loans and advances to customers	21.1	0.00	0.0	0.0	26.7	0.00	0.0	0.0
Trading debt securities	13.1	0.00	0.0	0.0	20.0	0.00	0.0	0.0
Other assets	0.0	0.00	0.0	0.0	0.0	0.00	0.0	0.0
Liabilities								
Due to other banks	15.7	1.1	0.0	0.0	19.0	0.0	0.0	0.0
Due to customers	8.3	1.8	0.02	0.0	9.4	0.2	0.5	0.0
Current accounts	0.01	0.01	0.01	0.0	0.02	0.01	0.0	0.0
Term deposits	13.8	3.8	0.0	0.0	0.9	5.3	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Geographic risk

Table 29.5 Financial assets and liabilities geographic concentration analysis for 2016

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	31 127	-	-	31 127
Due from other banks	563 635	-	-	563 635
Loans and advances to customers	44 266	-	-	44 266
Available-for-sale securities in the Bank portfolio	575 968	-	-	575 968
Held-to-maturity securities in the Bank portfolio	113 074	-	-	113 074
Other financial assets	505	-	-	505
Total financial assets	**1 328 575**	**-**	**-**	**1 328 575**
Liabilities				
Due to other banks	86 486	-	-	86 486
Due to customers	992 555	1 535	25 939	1 020 029
Other financial liabilities	7 125	-	-	7 125
Total financial liabilities	**1 086 166**	**1 535**	**25 939**	**1 113 640**

Assets and liabilities were classified based on a counterparty's residence data.

Table 29.6 Financial assets and liabilities geographic concentration analysis for 2015

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	4 703	-	-	4 703
Due from other banks	382 341	6 125	-	388 466
Loans and advances to customers	4 409	-	-	4 409
Available-for-sale securities in the Bank portfolio	20 930	-	-	20 930
Held-to-maturity securities in the Bank portfolio	31 015	-	-	31 015
Other financial assets	8	-	-	8
Total financial assets	**443 406**	**6 125**	**-**	**449 531**
Liabilities				
Due to other banks	-	-	-	-
Due to customers	227 872	2 899	44 076	274 847
Other financial liabilities	8 367	-	-	8 367
Total financial liabilities	**236 239**	**2 899**	**44 076**	**283 214**

Liquidity risk

Table 29.7 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2016

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	31 127	-	-	-	-	31 127
Due from other banks	563 635	-	-	-	-	563 635
Loans and advances to customers	38 262	-	-	6 004	-	44 266
Available-for-sale securities in the Bank portfolio	569 453	2 625	3 890	-	-	575 968
Held-to-maturity securities in the Bank portfolio	113 074	-	-	-	-	113 074
Other financial assets	505	-	-	-	-	505
Total financial assets	**1 316 056**	**2 625**	**3 890**	**6 004**	**-**	**1 328 575**
Liabilities						
Due to other banks	86 486	-	-	-	-	86 486
Due to customers	998 399	20 085	1 545	-	-	1 020 029
Other financial liabilities	7 125	-	-	-	-	7 125
Total financial liabilities	**1 092 010**	**20 085**	**1 545**	**-**	**-**	**1 113 640**
Net liquidity GAP as at 31 December	224 046	(17 460)	(2 345)	6 004	-	210 245
Total liquidity GAP as at 31 December	224 046	206 586	204 241	210 245	210 245	

Table 29.8 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2015

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	4 703	-	-	-	-	4 703
Due from other banks	388 466	-	-	-	-	388 466
Loans and advances to customers	-	-	-	4 409	-	4 409
Available-for-sale securities in the Bank portfolio	20 930	-	-	-	-	20 930
Held-to-maturity securities in the Bank portfolio	31 015	-	-	-	-	31 015
Other financial assets	8	-	-	-	-	8
Total financial assets	**445 122**	**-**	**-**	**4 409**	**-**	**449 531**

Liabilities

Due to customers	263 068	7 191	4 588	-	-	274 847
Other financial liabilities	8 367	-	-	-	-	8 367
Total financial liabilities	**271 435**	**7 191**	**4 588**	**-**	**-**	**283 214**
Net liquidity GAP as at 31 December	173 687	(7 191)	(4 588)	4 409	-	166 317
Total liquidity GAP as at 31 December	173 687	166 496	161 908	166 317	166 317	

The process of strategic, legal, operational, technological, compliance, and reputation risk provides for the effective management at all stages (from detection of risks to their minimization and control) and is implemented using relevant parameters.
The key objective of implementation and performance of the system of strategic, legal, operational, technological, compliance, and reputation risk management is to ensure the adoption of appropriate management decisions aimed at reducing the impact of risks on the Bank as a whole, in respect of certain activities of the Bank.

Other risks

The strategic, legal, operational, compliance and reputation risk management system includes:

- definition of the basic risk management principles;
- identification, registration and description of risks separately for each type of risk;
- risk assessment and risk level control (monitoring);
- measures to reduce (minimize) risks and eliminate the negative effects of risks, including the procedure and sources of funding for compensation of damages received;
- formation of the Bank's management structure, development of internal policies, procedures and technologies, taking into account the basic principles of risk management adopted by the Bank;
- control over the efficiency of risk management.

The strategic, legal, operational and reputation risk management focuses on the consistent development and improvement of the Bank's internal control system.
The process of strategic, legal, operational and reputation risk management provides for the effective management at all stages (from risk identification to minimization and control) and is implemented with the use of relevant parameters system.
A primary purpose of the implementation and functioning of the management parameters system in respect of strategic, legal, operational and reputation risk is to ensure the adoption of appropriate management decisions aimed at reducing the risk impact on the Bank as a whole, as well as on certain activity areas of the Bank.

Note 30. Capital management

The Bank's objectives in capital management are: to ensure compliance with the capital requirements set by the National Bank of Ukraine and cover the negative crisis effects. To determine the level of equity the Bank assesses the amount of regulatory capital and capital adequacy ratios. The regulatory capital is one of the most important Bank's activity indicators, which purpose is to cover negative implications of different risks that Bank takes during its activity and to ensure the protection of deposits, financial firmness and the Bank stability.

Regulatory capital structure

	As at 31 December 2016	As at 31 December 2015

Core capital		
Actually paid authorized capital stock	162 382	136 518
Reserves and other funds	2 134	770
Reduction of core capital		
Intangible assets less amortization	(1 391)	(2 245)
Capital contributions to intangible assets	-	(7)
Core capital (tier 1 capital)	163 125	135 036
Additional capital		
Provisions for standard liabilities	6 480	51 873
Estimated current year profit	48 560	27 284
Uncollected accrued income less provisions	-	(28)
Retained earnings from prior years	56	-
Additional capital (tier 2 capital)	55 096	79 129
Total regulatory capital	**218 221**	**214 165**

The data in the Table above consider the adjusting entries as at 01/01/2017. A regulatory capital adequacy ratio (solvency ratio) reflects the Bank's ability to timely and fully cover its liabilities arising from trade, credit and other monetary operations. The higher the value of the regulatory capital adequacy ratio, the greater the risk portion assumed by the Bank's owners. Alternatively, the lower the ratio value, the greater the risk portion assumed by the Bank's creditors/depositors. A regulatory capital adequacy ratio is set to prevent the excessive shifting of the credit risk and the banking assets default risk from the Bank to the Bank's creditors/depositors.

Each year, the ALCO oversees the preparation of a capitalization plan, which is a part of the Bank's budget and which is aimed at ensuring that the Bank will comply with the minimum capital requirements. It details a projected growth of capital and assets, dividend distributions, future business expansion, losses on bad loans and projected revenues. The plan also aims to support capital adequacy according to regulatory requirements of the National Bank of Ukraine. Due to the Bank's effective policy regarding capital management, the Bank adhered to the regulatory capital adequacy ratio during 2016.

Note 31. Contingent commitments

Table 31.1. Structure of lending commitments

	As at 31.12.2016	As at 31.12.2015
Lending commitments issued	40 711	-
Guarantees issued	292 746	2 622
Provisions for lending commitments	(170)	(157)
Total lending commitments less provisions	**333 287**	**2 465**

Table 31.2. Structure of lending commitments by currencies

	As at 31.12.2016	As at 31.12.2015
UAH	330 615	-
EUR	2 672	2 465
Total	**333 287**	**2 465**

As at 31 December 2016, the Bank had no signed agreements of non-cancellable leases and cases pending in courts.

Note 32. Fair value of financial instruments

According to the Regulation on the accounting policies, a fair value is the amount for which an asset can be exchanged or a liability settled in a transaction between knowledgeable, willing and independent parties, namely:

fair value of an asset is the amount to be paid for the purchase (exchange) of the asset;

fair value of a liability is the amount required to repay the liability.

The fair value of financial assets freely traded in the market is their quoted prices in an active market. Where the active market is unavailable, or no information on current prices available at the market, or similar items subject to valuation are unavailable, to determine the estimated fair value the Bank uses a method of valuation and assumption in respect of each class of financial assets or financial liabilities.

As at 31 December 2016, available-for-sale securities in the Bank portfolio are accounted for at fair value. Furthermore, the Bank considers that as at 31 December 2015 the value of such high-liquid assets/liabilities as cash and cash equivalents; short-term funds attracted/placed may be equated to the fair value. Information on financial assets in the balance sheet as at 12/31/2016 stated at fair value is presented below:

	Fair value by various valuation methods			Total fair value	Total carrying amount
	Market quotations (level I)	Valuation method using observable data (level II)	Valuation method using indicators not supported by observable market data (level III)		
Securities in the Bank portfolio available for sale	575 968	-	-	575 968	575 968
Total assets	**-**	**-**	**-**	**-**	**1 332 940**
Total liabilities	**-**	**-**	**-**	**-**	**1 119 887**

Information on financial assets in the balance sheet as at 12/31/2015 stated at fair value is presented below:

	Fair value by various valuation methods			Total fair value	Total carrying amount
	Market quotations (level I)	Valuation method using observable data (level II)	Valuation method using indicators not supported by observab		

			le market data (level III)		
Securities in the Bank portfolio available for sale	20 930	-	-	20 930	20 930
Total assets	**-**	**-**	**-**		**456 739**
Total liabilities	**-**	**-**	**-**		**292 167**

Note 33. Presentation of financial instruments by valuation categories

Table 33.1. ***Financial assets by valuation categories for*** **2016**

	Loans and receivables	Available for sale assets	Held to maturity investments	Total
Cash and cash equivalents	31 127	-	-	31 127
Due from other banks	699 245	-	-	699 245
-Corresponding accounts at other banks	450 328	-	-	450 328
-Sale and repurchase agreements with other banks	-	-	-	-
-Loans to other banks	248 917	-	-	248 917
Loans and advances to customers	52 712	-	-	52 712
-Loans to legal entities	52 712	-	-	52 712
Securities in the Bank portfolio available for sale	-	575 968	-	575 968
Securities in the Bank portfolio held to maturity	-	-	113 074	113 074
Other financial assets	521	-	-	521
-Positive revaluation on derivatives	253	-	-	253
-Income from services accrued	268	-	-	268
Total financial assets	**783 605**	**575 968**	**113 074**	**1 472 647**

Table 33.2. Financial assets by valuation categories for 2015

	Loans and receivables	Available for sale assets	Held to maturity investments	Total
Cash and cash equivalents	4 703	-	-	4 703
Due from other banks	522 536	-	-	522 536
-Corresponding accounts at other banks	188 731	-	-	188 731
-Sale and repurchase agreements with other banks	32 763	-	-	32 763
-Loans to other banks	301 042	-	-	301 042
Loans and advances to customers	8 817	-	-	8 817
-Loans to legal entities	8 817	-	-	8 817
Securities in the Bank portfolio available for sale	-	20 930	-	20 930
Securities in the Bank portfolio held to maturity	-	-	31 015	31 015
-Other financial assets	9	-	-	9
-Income from services accrued	9	-	-	9
Total financial assets	**536 065**	**20 930**	**31 015**	**588 010**

Note 34. Related party transactions

Table 34.1 Balances of related party transactions for 2016

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 25 %)	-	-	-	12 007
Provisions for loan debts as at 31 December	-	-	-	(6 004)
Due to customers (contract interest rate 0,1- 23%, depending on currency and product)	8 546	301 788	1 314	632
Other liabilities	-	22	1 688	-

During 2016, the Bank carried out related party transactions on standard terms.

Table 34.2. Income and expenses for related party transactions for 2016

	Parent company	Jointly controlled companies	Top management	Other related parties
Interest income	-	-	23	1 832
Interest expenses	-	(314)	(132)	(32)
Fee and commission income	35	88	1	-
Administrative and other expenses	-	(76)	(8 027)	-
Total	**35**	**(302)**	**(8 135)**	**1 800**

Table 34.3. Loans granted to and repaid by related parties in 2016

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans granted to related parties during the period	-	-	763	3 190
Loans repaid by related parties during the period	-	-	763	-
Total	**-**	**-**	**-**	**3 190**

Table 34.4 Balances of related party transactions for 2015

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 30 %)	-	-	-	8 817
Provisions for loan debts as at 31 December	-	-	-	(4 408)
Due to customers (contract interest rate 0,1- 23%, depending on currency and product)	105	90 634	1 460	533
Other liabilities	-	-	1 193	14

Table 34.5. Income and expenses for related party transactions for 2015

	Parent company	Jointly controlled companies	Top management	Other related parties
Interest income	-	-	-	1 095
Interest expenses	-	(8 261)	(71)	(23)
Fee and commission income	8	35	-	-
Administrative and other expenses	-	(125)	(4 736)	-
Total	**8**	**(8 351)**	**(4 807)**	**1 072**

Table 34.6. Loans granted to and repaid by related parties in 2015

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans granted to related parties during the period	-	-	-	8 817
Loans repaid by related parties during the period	-	-	-	-
Total	**-**	**-**	**-**	**8 817**

Table 34.8. Top management benefits

	2016		2015	
	Expenses	Accrued liabilities	Accrued liabilities	Accrued liabilities
Current employee benefits	8 027	1 688	4 736	1 193

Note 35. Subsequent events

There have been no other events after the reporting date that may be significant for users of the financial statements. In particular, there have been no:

- Business combinations;
- Termination of business or decision on termination of business;
- Significant acquisition of assets;
- Significant changes in exchange rates or the value of the Bank's assets;
- Court decisions in favor of plaintiffs, which might cause significant financial obligations for the Bank.

20 March 2017

Chairman of the Board _____ **/S. Korchynska/**

Chief Accountant _____ **/V. Chechotkina /**