

PUBLIC JOINT STOCK COMPANY «CRISTALBANK»
Financial Statement for the year that ended on December 31, 2016

**PUBLIC JOINT STOCK COMPANY
«CRISTALBANK»
Financial Statements
for 2016 (for the period from January 1, 2016 to December 31, 2016).**

PUBLIC JOINT STOCK COMPANY «CRISTALBANK»
Financial Statement for the year that ended on December 31, 2016

**Statement of Financial Position (Balance Sheet)
on December 31, 2016**

(UAH '000)

Line item	Notes	December 31, 2016	December 31, 2015
1	2	3	4
ASSETS			
Cash and cash equivalents	6	94,469	51,052
Loans and advances to customers	7	178,481	149,480
Securities in the bank portfolio available for sale	8	28,339	
Securities in the bank portfolio held to maturity	9	450,962	363,948
Receivables in respect of current income tax		14,209	-
Deferred tax asset	24	176	-
Fixed and intangible assets	10	12,103	8,548
Other financial assets	11	1,674	1,616
Other assets	12	80,849	43,997
Total assets		861,262	618,641
LIABILITIES			
Customer deposits	13	656,008	455,799
Liabilities under current income tax		-	6,610
Deferred tax liabilities		-	12
Provisions for liabilities	14	407	1
Other financial liabilities	15	3,149	2,855
Other liabilities	16	2,459	3,086
Total liabilities		662,023	468,363
EQUITY			
Authorized capital	17	120,522	120,522
Reserve and other funds		1,488	-
Revaluation provisions	18	285	-
Retained earnings (uncovered loss)		76,944	29,756
Total equity		199,239	150,278
Total liabilities and equity		861,262	618,641

Approved for issue and signed

February 27, 2017

Board Chairman

L.A. Hrebinskyi

Chief Accountant

L.M. Symonenko

Official seal of PUBLIC JOINT STOCK COMPANY «CRISTALBANK»

Done by: T.I. Linnyk

090-590-46-64

PUBLIC JOINT STOCK COMPANY «CRISTALBANK»
Financial Statement for the year that ended on December 31, 2016

**Profit and Loss Statement
for 2016**

(UAH '000)

Line item	Notes	2016	2015
1	2	3	4
Interest income	20	97,099	60,004
Interest expenses	20	(14,638)	(8,316)
Net interest income/(Net interest expenses)		82,461	51,688
Net (increase) decrease in provisions for impairment of loans and advances to customers and deposits in other banks	7.2	(17,745)	(6,850)
Net interest income/(Net interest expenses) after an allowance for impairment of loans and advances to customers and deposits in other banks		64,716	44,838
Fee income	21	15,873	3,298
Fee expenses	21	(1,611)	(561)
Result from derivative transactions recorded at fair value subject to recognition of revaluation in profit/loss		15,570	1,142
Result from sale of securities and other financial investments from the bank's portfolio held for sale		14	-
Result from foreign exchange transactions		1,391	1,309
Result from foreign currency revaluation		(8,281)	(2,017)
Expenses/(incomes) arising from initial recognition of financial liabilities at an interest rate higher or lower than the market interest rate		(7,873)	(4,808)
Net (increase) decrease in provisions for impairment of receivables and other financial assets	11,12	(1,002)	(30)
Net (increase) decrease in provisions for liabilities	14	(406)	(1)
Other operating income	22	36,637	33,763
Result from sale of fixed assets		-	136
Administrative and other operating expenses	23	(56,253)	(40,679)
Profit/(loss) before tax		58,775	36,390
Income tax expenses	24	(10,099)	(6,634)
Profit/(loss) from continuing operations		48,676	29,756
Profit/(loss) for the year		48,676	29,756
Profit/(loss) attributable to:			
bank owners		48,676	29,756
non-controlling interest		-	-
Profit/(loss) per share from continuing operations:			

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net profit/(loss) per ordinary share (UAH)		4.0	2.5
adjusted net profit/(loss) per ordinary share (UAH)		4.0	2.5
Profit/(loss) per share due to owners:			
net profit/(loss) per ordinary share for the year (UAH)		4.0	2.5
adjusted net profit/(loss) per ordinary share for the year (UAH)		4.0	2.5

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**Comprehensive Income Statement
for 2016**

(UAH '000)

Line item	Notes	December 31, 2016	December 31, 2015
Profit/(loss) for the year		48,676	29,756
Revaluation of securities in the bank portfolio available for sale		285	-
Total comprehensive income for the year		48,961	29,756
Total comprehensive income due to:			
bank owners		48,961	29,756
non-controlling interest		-	-

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PUBLIC JOINT STOCK COMPANY «CRISTALBANK»
Financial Statement for the year that ended on December 31, 2016

**Statement of Cash Flows on a Straight-Line Basis
for 2016**

(UAH '000)

Line item	Notes	December 31, 2016	December 31, 2015
CASH FROM OPERATING ACTIVITIES			
Interest income earned		95,705	39,798
Interest expenses paid		(14,846)	(16,589)
Fee income earned		15,704	2,490
Fee expenses paid		(1,610)	(561)
Result of transactions with financial instruments at fair value		6,720	1,142
Result of foreign exchange transactions		1,391	1,309
Other operating income received		36,370	15,829
Staff compensation paid		(30,608)	(16,588)
Administrative and other operating expenses paid		(25,387)	(22,186)
Income tax paid		(20,001)	(12)
Cash received/(paid) from operating activities before changes in operating assets and liabilities		63,438	4,632
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Net (increase)/decrease in loans and advances to customers		(52,775)	(49,870)
Net (increase)/decrease in other financial assets		(539)	(1,418)
Net (increase)/decrease in other assets		(37,108)	(1,288)
Net increase/(decrease) in customer funds		200,674	347,822
Net increase/(decrease) in provisions for liabilities		(407)	(1)
Net increase/(decrease) in other financial liabilities		265	112
Net increase/(decrease) in other liabilities		(48)	(1,491)
Net cash received/(used) from operating activities		173,500	298,498
CASH FROM INVESTING ACTIVITIES			
Purchase of securities in the bank portfolio available for sale		(40,147)	-
Acquisitions/(proceeds from redemption) of securities in the bank portfolio held to maturity		(89,000)	(361,000)
Acquisition of fixed assets		(2,996)	(2,893)
Proceeds from sale of fixed assets		51	180
Purchase of intangible assets		(1,572)	(1,377)
Net cash received/(used) from investing activities		(133,664)	(365,090)
CASH FROM FINANCING ACTIVITIES			
Issue of ordinary shares		-	120,522
Net cash received/(used) from financing activities		-	120,522
Effect of changes in the official rate of the National Bank of Ukraine on cash and cash equivalents		3,581	(2,878)
Net increase/(decrease) in cash and cash equivalents		43,417	51,052
Cash and cash equivalents at the beginning of the period		51,052	-
Cash and cash equivalents at the end of the period		94,469	51,052

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PUBLIC JOINT STOCK COMPANY «CRISTALBANK»
Financial Statement for the year that ended on December 31, 2016

**Statement of Changes in Equity
(Equity Statement)
for 2016**

(UAH '000)

Line item	Notes	Authorized capital	Reserve and other funds	Revaluation provisions	Undistributed profit	Total equity
Balance as at December 31, 2015	17	120,522	-	-	29,756	150,278
Total comprehensive income		-	-	285	47,188	47,473
Profit allocation to the reserve fund and other funds		-	1,488	-	-	1,488
Balance as at December 31, 2016	17	120,522	1,488	285	76,944	199,239

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February 27, 2017

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Note 1. Bank Details

PUBLIC JOINT STOCK COMPANY «CRISTALBANK» (abbreviated name: PJSC «CRISTALBANK», hereinafter – the Bank) is incorporated in Ukraine.

The Bank is located at 2 Kudriavskiy Uzviz St., Kyiv 04053, Ukraine.

PJSC «CRISTALBANK» is the first bank in Ukraine created with the "transition bank" status based on an insolvent bank.

The Bank founders at the incorporation stage were the Individual Deposit Guarantee Fund and a private investor, individual entrepreneur, who became a successful bidder in the tender for potential investors to create a "transition bank".

The Bank is the successor of TRANSITION BANK CRISTALBANK PJSC and received a banking license in accordance with Article 42 of the Law of Ukraine on the System of Guaranteeing Individual Deposits from the National Bank of Ukraine on December 16, 2014.

On December 22, 2014, the Bank accepted the assets and liabilities of the insolvent TERRA BANK PJSC.

During the first three months of business, the Bank and its private investor fulfilled all requirements of applicable laws, the National Bank of Ukraine and the Individual Deposit Guarantee Fund (including the formation of the Bank authorized capital in cash in the amount of UAH 120.5 mln).

On March 12, 2015, the Bank has lost the status of a "transition bank".

The Bank business legal structure is 230 (Joint Stock Company).

The main shareholder of the Bank is the citizen of Ukraine, individual Lening Maryna Gustavivna. Her share in the Bank authorized capital is 100%.

The Bank officials and foreign investors do not hold shares in the authorized capital of PUBLIC JOINT STOCK COMPANY «CRISTALBANK».

The Bank is a participant of the Individual Deposit Guarantee Fund. Certificate of a participant of the Individual Deposit Guarantee Fund No. 229 dated December 29, 2014.

PJSC «CRISTALBANK» is a member of SWIFT international interbank payment system.

The Bank operates in Ukraine under the Articles of Association, approved by the National Bank of Ukraine on April 3, 2015, and registered on April 14, 2015, banking license No. 276 dated April 29, 2015 and general license for currency transactions No. 276-2 dated May 5, 2015.

On September 14, 2016, the Bank obtained licenses for professional activity in the stock market (securities market), i.e. security trading activity: dealing and brokerage activities (SSMNC decision No. 654 dated June 09, 2016).

The Bank is a member of the Professional Association of Capital and Derivative Markets (Certificate No. 314 dated June 23, 2016).

The supreme governing body is the General Meeting of Shareholders, the controlling body is the Bank Supervisory Board and Internal Audit Service, and the executing authority is the Bank Board.

The Bank has no investment in associates, subsidiaries or agencies.

PJSC «CRISTALBANK» is an interregional bank present in 10 regions of Ukraine. As of December 31, 2016, the Bank's regional network consisted of 21 separate units and the Bank head office in Kyiv.

The main strategic goal is to further develop the Bank as a reliable universal financial institution focused on the fullest possible promotion of interests of its customers and shareholders.

PJSC «CRISTALBANK» provides almost the whole range of banking services, taking into account the interests of each customer and the chosen strategy of the Bank.

The Bank is a member of international payment systems MoneyGram, Welsend, Xəzri, and Western Union. The Bank has the status of an affiliate member of MasterCard.

Services provided to individuals:

- ✓ Opening and maintenance of current accounts, enabling the timely performance of all required cash settlement transactions both within Ukraine and abroad.
- ✓ Opening and maintenance of current accounts, the transactions on which may be carried out using the electronic payment means.
- ✓ Deposits in local and foreign currency. Given the current difficulties related to a long-term planning of available funds to be placed on deposit in banks, the Bank proposed a "Growing" deposit, the terms and conditions of which allow terminating the same on the date convenient for the customer at the interest rate loyal for customers upon early termination. Also, the Bank offers the other contributions for individuals addressing the needs of a certain range of customers, including the deposits such as "Profitable", "Profitable With Replenishment", "Classic", and "Flexible".
- ✓ Quick individuals' cash transfers to within Ukraine and abroad
- ✓ Foreign exchange transactions
- ✓ Payment of utility bills
- ✓ Acceptance of payments for the benefit of the third parties
- ✓ Leasing of individual safe deposit boxes.

Since October 2015, the Bank borrowers are able to repay the loans not only in bank branches, but also via EasyPay self-service terminals. Self-service terminals of the bank partner company today are available in more than 5,500 points throughout Ukraine.

Also, the individual Bank borrowers are able to repay their loans by payment card using the partner's service at <https://easypay.ua/bank/crystalbank>.

Services for corporate customers:

- ✓ Account manager's services
- ✓ Opening and maintenance of current accounts in all currencies
- ✓ Remote account maintenance
- ✓ Deposits in national currency
- ✓ Bank guarantees
- ✓ Purchase/sale of foreign currency
- ✓ Acceptance of payments from individuals and legal entities
- ✓ Support of agreements on lending by non-residents
- ✓ Lending
- ✓ Commission services under security transactions

The Bank launched the card business line in late 2015 and continues to develop it actively. It accepts for servicing both payroll projects and individuals, as well as started servicing the legal entities and businesses using the "Corporate payment card" product. As of December 31, 2016, the number of customers who were issued the cards is 3,257, and the number of active cards issued by the Bank is 3718. On 2009 cards, the bank customers conducted transactions.

During 2016, the bank's own network of payment terminals increased by 16 terminals and amounts to 25 terminals, respectively, 24 of which are bank terminals and 1 commercial terminal. Also, as of December 31, 2016, there are 9 operating ATMs.

To improve the competitiveness, develop the remote customer service channels and additional services, the Bank launched a project to establish an Internet banking for individuals.

The Bank maintains correspondent relations with Ukrainian banks, such as Clearing Center PJSC, Ukrgasbank JSB, and carries out the following transactions in the interbank market.

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Financial Statement for the year that ended on December 31, 2016

- ✓ Non-commercial transactions with currency values;
- ✓ Transactions with cash foreign currency and checks (purchase, sale, exchange, collection) performed at the box offices and bank foreign exchange points;
- ✓ Maintenance of customer (resident and non-resident) accounts in foreign and national currency and non-resident customers' accounts in Ukrainian currency;
- ✓ Opening of correspondent accounts in authorized banks of Ukraine in foreign currency and performance of related transactions;
- ✓ Attraction and placement of foreign currency in the foreign exchange market of Ukraine;
- ✓ Attraction and allocation of resources in national currency in the interbank market of Ukraine;
- ✓ Trading in foreign currency in the foreign exchange market of Ukraine;
- ✓ Transactions with deposit certificates of the National Bank of Ukraine.

The Bank consistently fulfills all requirements of the National Bank of Ukraine and does not allow any violation of the established mandatory economic standards of business.

In accordance with requirements of the National Bank of Ukraine to bring the bank authorized capital to the minimum amount of UAH 200,000,000.00 by July 11, 2017, on December 08, 2016 the Bank shareholder decided to increase the authorized capital by UAH 80,000,000.00 (eighty million hryvnias only) and bring it to the amount of UAH 200,522,500.00 (two hundred million five hundred twenty-two thousand five hundred hryvnias only). The authorized capital is increased by private placement of additional shares with the current par value of UAH 10,00 totaling 8,000,000.00 (eight million) pieces by additional contributions of the existing shareholder and a predetermined group of people.

The annual financial statements are prepared for 12 months of 2016 as a cumulative total from the beginning of the year.

These financial statements were authorized for issue and signed by the Bank management on February 27, 2017.

Note 2. Economic environment in which the Bank operates.

External environment. In November-December 2016, the situation in the global financial markets was influenced by the US presidential election, rhetoric of FED members after meetings in November and December, expectations and implementation of enhanced FED monetary policy in December, and expansion of the ECB program of quantitative easing. This has led to increased attractiveness of more reliable assets and, respectively, capital outflows from emerging markets.

Thus, the growth of S&P 500 index in the background of positive dynamics of the banking and energy sectors was supported by favorable information about the accelerated growth rate of US GDP in 3Q2016, increased consumer confidence index according to the Conference Board, improvement in the labor market (wage growth and reduced unemployment). An additional factor was the investment reorientation from the bond market, which has suffered a collapse, to stocks. However, positive macroeconomic data contributed to the increase in FED interest rates in December. This prompted the growth of the US dollar index (DXY) to its highest level over the past 17 years, i.e. 103.29.

Unlike the US, and European indexes and the euro, respectively, were under pressure of a number of negative factors in November, such as weakness of the European banking sector, expected referendum on Italian Constitution amendment, and start of election campaigns in France and Germany. Only a record growth of US stock market indexes has supported the European indexes and enabled the EURO STOXX 50 to maintain almost the same level. Instead, a substantial strengthening of the US dollar and expansion of ECB quantitative easing program led to euro depreciation to USD/EUR 1.0378.

Accordingly, the situation for financial assets of emerging markets has deteriorated due to an intensive capital outflow because of a rising yield on 10-year US government bonds, strengthening of the US dollar rate and increase of FED interest rates. Thus, the outflow of the net portfolio investment from emerging markets was the largest over the past three and a half years (according to IIF – USD 24.2 billion in November). Meanwhile, the exchange rates of the currencies in emerging markets mainly deepened the fall. Only currency of certain raw material-focused countries were strengthened in the background of rise in oil prices in the world markets.

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Economic development of Ukraine. During 2016, the systemic risks of the Ukrainian financial sector decreased. The situation in the banking sector was stabilized thanks to restored funding base, recognition of the real asset quality and fulfillment of capitalization program by almost all major banks. The bulk problems of the past, which used to hinder the healthy development of the banking system, the banks have sufficient capital and liquidity to resume lending.

Macroeconomic environment outside and inside the country was favorable for the financial sector over the past year. GDP growth resumed, the inflation is under control, within the targeted range established by the NBU. In the fiscal sector, the deficit of public finances is reduced significantly, primarily due to a reduced quasi-fiscal component.

The key medium-term risks are still the possibility of escalation of the Russian aggression in Eastern Ukraine, a low pace of structural reforms, a slow economic growth of trading partners and delays in cooperation with international financial institutions, especially the IMF. Continued cooperation with international financial institutions is a critical prerequisite for financial stability. Experience shows that the termination of cooperation with IMF will certainly lead to long breaks in economic transformation.

Inflation. Economic growth at 1.5% of GDP by the results of 2016 indicates that the country has moved from fall to a certain growth. However, to feel real change, growth should be more significant and longer lasting.

As of the date of this statement, the issue of applying IAS 29 "Financial reporting in hyperinflationary economies" by Ukrainian businesses still has to be determined. The Bank did not calculate the hyperinflation impact on financial statement indicators in the absence of clarification on the use of the standard and a high probability of the decision on non-applying IFRS 29 to Ukraine.

According to NBU, in November 2016, the consumer inflation was 1.8% m/m, and in annual terms it slowed down to 12.1%. This dynamics of the annual inflation was generally expected and consistent with the forecast of the National Bank. A slower annual inflation (from 12.4% in October) was due to the rapid decrease in inflation raw food, which was more significant than expected. However, the rise in prices and tariffs regulated by administration and underlying inflation was somewhat larger than expected by. A current CPI (consumer price inflation) and its components shows that the results of actual inflation in 2016 will be close to the central value of the target range (12% +/- 3 percentage points) as estimated by NBU at the end of 2016.

Monetary policy. At the last meeting on monetary policy, the Board of the National Bank of Ukraine decided to leave a discount rate at 14% per annum. During the year, the rate was decreased from 22% (January) to 14% (December). Refraining from further easing of monetary policy is explained by an increased risk of the future inflation dynamics and attainment of inflation objectives for 2017-2018. This decision was primarily due to the need to reverse the effects of a sharp rise in the minimum wage at the end of the year.

In response to the consistent easing of monetary policy during April-November 2016, the cost of resources in local currency was decreased gradually. In particular, in November, the reduction of the cost of interbank loans accelerated (to 13.8%), compared to January (17.5%). The average weighted interest rates on loans (excluding overdraft) and deposits of non-financial corporations, which was typical for almost all maturities, continued to decline too (January - 16.7%, November - 13.1%). The cost of raising funds by households gradually declined, although not as rapidly as those of non-financial corporations. This is due to a significant growth incorporate deposits this year, while individual deposits grew more moderately, and their dynamics was more sensitive to situational factors. At the same time, the average interest rates on loans to households remained high. The high cost of such loans is due to the fact that they are mainly represented by consumer and card loans, which are relatively more expensive in maintenance, and low elasticity to changes in interest rates.

Currency market. The situation in the currency market in November and the first half of December remained stable. However, in late December, a downward pressure on the hryvnia increased, despite favorable external fundamental factors supporting the inflow of export earnings and providing a sufficiently high supply of foreign currency. The temporary surge in demand for foreign currency was primarily generated by a number of situational factors, i.e. a typical year-end increase in payments on foreign loans by enterprises, a mental pressure due to the nationalization of Privatbank PJSC, and the traditional year-end fiscal expansion.

In terms of a flexible exchange rate, NBU smoothed excessive vibrations by conducting currency auctions for purchase and sale of foreign currency. Through strengthening of devaluation pressure in late December, the

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net balance of foreign exchange transactions was negative (USD 119 mln as of December 29, 2016). However, since the beginning of 2016, the cumulative net surplus amounted to USD 1.55 bln.

Banking system. After several months of decrease, the banking system liquidity increased in November 2016. In December, this trend not only was preserved, but also increased. In particular, for the first time in six months the average daily balances on deposit certificates increased in November. This fact has offset a certain reduction in the average daily balances on correspondent accounts. The main sources of liquidity expansion in the banking system in November were NBU interventions in the foreign exchange market (about UAH 2 bln) and a seasonal decline in cash (UAH 2.9 bln).

During 11 months, the inflow of household deposits into the banking system in national currency continued (7.7% m/m) (January – UAH 190.9 mln, November – UAH 205.6 mln). The fastest growth was shown by fixed-term deposits of one to two years showing a monthly increase during the current year, which has accelerated significantly since April. Such a dynamics shows a gradual restoration of confidence in the banking system, as well as the national currency. Also, the demand deposits showed a positive trend. Instead, the deposits in national currency from non-financial corporations did not show a large growth (4.8% m/m) due to lower balances in the months when the payment of quarterly and annual taxes is due.

The decrease in balances in foreign currencies of both non-financial corporations and households determined a general downward trend in the general balance of deposits due to a continued foreign currency loan restructuring. So in November, for the fourth consecutive month, the balances of loans granted in national currency have been increasing (by 6.4% m/m), and their annual growth rate accelerated to 10%. The increase in credit balances in national currency in November occurred at the expense of non-financial corporations (by 25.2% m/m; in January – UAH 338.3 mln, and in November – UAH 423.6 mln), while lending to households was weak. The largest increase in loan balances since mid-2016 was observed on borrowings of wholesale and retail trade companies and repair of motor vehicles and motorcycles. The volume of debts of the businesses engaged in this type of economic activity in the national currency in November reached a pre-crisis level. Also, a restrained growth of credit balances was shown by agriculture, forestries and fisheries, as well as construction and real estate transactions. Still, the lending of the other activities remained sluggish.

Note 3. Basis of financial statement submission

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) on the assumption that the Bank would be a going concern in the foreseeable future. Below is a summary of significant accounting policies applied during preparation of these financial statements. These policies have been consistently applied to all periods presented, unless indicated otherwise (see Note 5).

The following accounting policies do not include new standards, amendments to standards and interpretations, the application of which was voluntary in 2016.

The functional currency and presentation currency of the reporting is the national currency of Ukraine, i.e. Ukrainian hryvnia.

Note 4. Significant accounting policies

4.1. Basis of financial statement preparation assessment

The Bank uses the following assessment bases with varying degrees and in various combinations. They include:-

- historical cost or fair value of consideration issued to purchase an asset or liability at the time of their purchase. Assets are recorded by the amount of paid cash or cash equivalents or the fair value of consideration issued to purchase the same at the time of purchase. Liabilities are recorded by the amount of proceeds received in exchange for the liability, or in some other circumstances by the amounts of cash or cash equivalents expected to be paid to cover liabilities in the normal course of business;
- current cost. The assets are recorded by the amount of paid cash or cash equivalents, which could be currently received by selling assets in the ordinary course of sale. Liabilities are recorded at an undiscounted amount of cash or cash equivalents, which would be required to settle the obligation at the moment;
- realizable value of sale (redemption). The assets are recorded by the amount of cash or cash equivalents or the fair value of the consideration issued to purchase the same at the time of purchase. Liabilities are recorded by the cost of their maturity, i.e. by an undiscounted amount of cash or cash equivalents, which is expected to be paid to settle the liabilities in the normal course of business;
- present value (discounted value). The assets are recorded at the present (discounted) value of the future net revenues, which are expected to be generated by the item during the normal course of business conducted by an entity.

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Liabilities are recorded at present (discounted) value of the future net cash outflows expected to be required to settle the liability in the ordinary course of business.

The current cost, realizable value and present value are the fair value assessment methods.

Fair value is the price to be received from sale of asset or paid for the liability during a normal transaction between members of the core market or the most favorable market as of the assessment date.

- Level 1: the fair value is determined at the prices quoted in active markets for identical assets and liabilities. Characteristics of an active market include a sufficient frequency and volume of trading, as well as availability of publicly available data on prices;

- Level 2: the fair value is determined using the assessment techniques with significant input parameters directly or indirectly observed in the market. These techniques are adjusted continuously, and the input parameters are confirmed by information from active markets;

- Level 3: the fair value is determined using the assessment techniques for which the market has no observed significant input parameters, or these input parameters cannot be confirmed by market observations, for example, due to the instrument illiquidity and significant model risk. The non-observable input parameter is a parameter for which there is no market data and which, respectively, is based on its own assumptions taken into account by the other market participants when assessing the fair value. Assessment of the fact whether the banking product is illiquid or exposed to a significant model risk requires professional judgments.

The level in the fair value hierarchy to which the asset or liability belongs, is based on the lowest level of input parameters, which is essential for the full amount of fair value.

Upon initial recognition, there may be a difference between the transaction price and the fair value of financial instruments disclosed at Level 3 in the fair value hierarchy. This "first day" profit/loss is immediately recognized in the accounting as a loss or profit in correspondence with the discount (premium) accounts and are amortized using the effective interest method to account for interest profit (loss) for the period in which the estimated parameters are expected to remain not supported by market observations.

When preparing financial statements, the Bank uses the accrual basis.

When preparing financial statements, the Bank adheres to the concept of financial capital preservation.

4.2. Initial recognition of financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to contractual obligations in respect of the said instrument. The transactions of purchase and sale of financial assets and liabilities are recognized using the accounting by transaction date or settlement date in accordance with accounting policies applicable to a specific financial statement item. Change in the fair value of financial instruments that will be subsequently measured at fair value between the transaction date and settlement date, and shall be accounted for in the same way as the purchased asset. The change is recognized in profit or loss for assets classified as financial assets at fair value through profit or loss; change is recognized in the other comprehensive income for assets classified as available for sale.

4.3 Impairment of financial assets

At the end of each reporting period, the Bank determines whether there is an objective evidence of impairment of financial assets or a group of financial assets. A financial asset or a group of financial assets is considered impaired when there is an objective evidence of impairment as a result of one or more events, which occurred after initial recognition of a financial asset ("loss events") and such loss events (or events) have(s) an impact on the estimated future cash flows of a financial asset or a group of financial assets subject to accurate assessment.

The objective evidence of impairment includes available information attracting the asset holder and related to the following loss events: significant financial difficulties experienced by the issuer or debtor; default under a contract or arrears under payment of interest or principal; probability of bankruptcy or other financial reorganization of the borrower; disappearance of an active market for that financial asset because of financial difficulties, and the availability of information about a significant reduction in the estimated future cash flows from the assets, including a change in arrears (increased number of delayed payments) or economic conditions correlating with defaults.

4.4 Derecognition of financial instruments

The Bank derecognises the entire financial asset or a part thereof when the contractual rights to receive cash flows from the asset expire, or the Bank transfers its contractual rights to receive cash flows from the asset and transfers *substantially all risks, benefits and control of the asset*. *The Bank maintains an asset on the balance sheet and recognizes the obligation resulting from the transfer of asset, unless all the above conditions are complied with.*

The Bank derecognises the entire financial liability or a part thereof upon full or partial repayment of the obligation.

4.5. Cash and cash equivalents

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Cash and cash equivalents are items, which can be convertible to a known amount of cash at short notice and which are subject to an insignificant risk of changes in value. All postings of funds in the interbank market are included in loans and advances to credit institutions. The amounts related to funds not freely disposable are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

4.6 Due from banks

In the normal course of business, the Bank grants loans or places deposits in the other banks at regular intervals. The amounts due from banks are measured at amortized cost using the effective interest method. The amounts due from credit institutions are carried net of provision for impairment losses.

4.7 Loans and advances to customers

Loans granted to customers are financial assets, which are not derivatives with fixed or determined payments and are not quoted in an active market.

Loans and advances to customers are initially measured at fair value or an equivalent amount, which is usually the net amount of money issued, including the directly related expenses and certain fees and commissions for loan arrangement, which are considered to be an adjustment of an effective interest rate on the loan.

Subsequently, loans and advances to customers are carried at amortized cost. Proceeds from the loan are calculated using the effective interest rate and are charged to profit and loss over the term of the loan.

Fees earned under contractual obligations to provide funding prior to issuance of the loan are deferred and included in the cost of loan when the loan is granted.

Fees earned under contractual obligations to provide funding when the loan utilization is unlikely or if there is an uncertainty regarding the loan term and amount, are distributed evenly over the life of the obligation. Loans granted to customers are net of any impairment provision.

In the event of failure to repay the loans and advances, they are written off against the created provision for impairment losses by decision of the Bank Board, subject to approval by the Supervisory Board. Such decisions shall be made after all possibilities available to collect the amounts due to the Bank are exhausted, and after it has sold all available collateral.

4.8. Securities in the bank portfolio available for sale

The Bank shall include in its portfolio available for sale the debt securities, shares and other securities with variable income intended for sale and not classified as securities measured at fair value through profit/loss or securities held to maturity, namely, debt securities which the Bank does not intend and/or is unable to hold to the date of maturity or when there are certain restrictions on keeping of securities in the portfolio held to maturity; debt securities, which the Bank is willing to sell due to changes in the market interest rates or risks, liquidity needs, availability and profitability of alternative investments, financing sources and terms or changes in exchange risks; shares and other securities with variable income in respect of which the fair value cannot be determined reliably.

The Bank initially recognizes the debt securities available for sale presented in these financial statements at fair value, to which the acquisition costs are added. In the future such securities at fair value, determined on the basis of stock quotes.

Interest income on debt securities available for sale is recognized using an effective interest method in profit or loss.

4.9 Securities in the bank portfolio held to maturity

In its portfolio held to maturity, the Bank shall account for purchased debt securities with fixed payments or with determinable payments and fixed maturity. Debt securities belong to the portfolio held to maturity if the bank intends and is able to hold the same to maturity in order to obtain interest income.

The purchased debt securities are recorded in the accounting in the context of the following components: par value, discount or premium, and accumulated interest at the date of acquisition. Transaction costs incurred when purchasing debt securities are included in the cost of acquisition and reflected on discount (premium) accounts.

The Bank continuously evaluates its intention and ability to hold the securities to maturity at the balance sheet date. After initial recognition, debt securities held to maturity at the balance sheet date are recorded at amortized cost.

The Bank recognizes income and amortization of discount (premium) on debt securities at least once a month using the effective interest method.

Debt securities held to maturity are subject to revision for impairment.

As regards securities held to maturity, the Bank recognizes interest income, including amortization of discount (premium) using the accrual method and the effective interest rate.

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Impairment of securities held to maturity is reflected in accounting by creating a provision for excess of the carrying value of securities over the present value of the estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate calculated upon initial recognition).

4.10. Deferred tax assets

The deferred tax assets are calculated for all temporary differences to be recovered.

The deferred tax asset is recognized only when it is probable to receive the taxable profit in the future against which it is possible to set off those temporary differences reducing the tax base. The deferred tax assets are determined at the tax rates to be applied during the period of the asset sale based on the laws enacted or substantively enacted at the reporting date.

4.11 Fixed assets

The fixed assets are posted at cost, i.e. historical (actual) cost of fixed assets as a sum of money or fair value of the other assets paid (transferred) or spent for acquisition (creation) of fixed assets. The historical cost also includes all costs associated with delivery, installation, and commissioning of fixed assets.

After initial recognition, the fixed assets are measured at revalued cost (fair value) less the accumulated depreciation and accumulated impairment losses, i.e. buildings and structures, and are carried at cost less the accumulated depreciation and impairment losses, and all other fixed assets.

The basis for accrual of depreciation on fixed assets and intangible assets is calculated after deducting the residual value of the asset. The residual value of the asset is zero.

The fixed assets are amortized on a straight line basis over the useful life of the asset. The depreciation costs are recognized as losses.

Depreciation of low-value non-current tangible assets worth up to UAH 2.5 thousand and useful life of more than a year is accrued in the first month of use in the amount of 100 percent of their value.

Expenses related to repairs and restoration works are included in operating expenses at the time when they are incurred, unless they qualify for capitalization.

The Bank established the following expected useful lives of fixed assets:

Fixed asset group	Useful life (years)
Buildings and structures	100
Transmitting devices	10
Machinery and equipment	3-7
Vehicles	7
Tools, equipment, inventories (furniture)	3-10

The Bank annually reviews the useful lives of fixed assets, and adjust the same as necessary.

The fixed assets are attributed if the net book value of fixed assets differs significantly from its fair value.

The profit and losses from disposal of fixed assets are recognized in profit or loss.

4.12 Intangible assets

The carrying value of acquired intangible assets is determined as the sum of the purchase price and other costs directly attributable to the acquisition and preparation of these intangible assets for use. The Bank shall apply the straight-line method of intangible asset amortization.

The useful life of an intangible asset derived from contractual or other legal rights, is equal to validity of the contractual or other legal rights. If the contract or other legal rights do not specify the period for the asset use, it is determined by the Bank and may not be less than 2 years.

The cost of servicing the intangible assets are expensed for the period in which they are incurred. Meanwhile the costs leading to improvement or extension of an intangible asset is included in the initial cost of acquisition.

Intangible assets are tested for impairment if there are signs of potential impairment at the reporting date. The impairment is reflected in profit or loss.

Gains and losses from disposal of intangible assets recognized in profit or loss.

4.13 Operating lease (rent) under which the Bank is a lessor and/or lessee

The Bank is a lessee or a lessor under the lease agreement.

Accounting for leases where the Bank is a lessor.

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The asset is recognized in the statement of financial position and amortized on a straight-line basis over the lease term. Lease payments are accounted for in the profit and loss for the full term according to a straight-line method during the lease term.

Accounting for leases where the Bank is a lessee.

The asset is not recognized in the Bank financial statements. The lease payments under operating leases are charged to the profit and loss of the Bank acting as a lessee on a straight-line basis over the lease term.

4.14. Derivative financial instruments measured at fair value through profit/loss

Derivatives, including the swap contracts on purchase/sale of foreign currency and securities are carried at fair value through profit/loss. The transaction costs are expensed during their initial recognition.

The fair value of derivatives on the transaction date is zero.

On every balance sheet date following the initial recognition, the derivative financial instruments are measured at fair value through profit/loss.

The fair value of forward contracts for sale of securities is determined based on stock quotes.

All derivative financial instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

4.15 Borrowings

The proceeds of the Bank are the funds raised from businesses and individuals, who are non-derivative financial liabilities. The initial recognition is carried at fair value, and thereafter they are accounted at amortized cost. For the use of funds, the Bank incurs the interest expenses recognized in the Statement of Financial Result.

4.16 Income tax

In these financial statements, the tax is shown in compliance with the law of Ukraine on using the tax rates and laws enacted at the balance sheet date. The income tax expenses comprise the current tax payments and are recognized in the P&L Statement.

Income tax rate in 2016 was 18%.

4.17 Authorized capital

The contributions to the authorized capital are recognized at historical cost. Share premium occurs when the amount of contribution exceeds the par value of shares issued. The gains and losses on sale of own shares are attributed to the share premium.

4.18 Income and expenses under financial assets and liabilities

The income and expenses are recognized on accrual basis. Income and expenses under financial instruments measured at amortized cost are recognized in interest income and expenses on an effective interest rate basis. The method by which the Bank recognizes the fee income and expenses are associated with provision and receipt of services, depending on the nature of the service.

The fees considered to be an additional component of interest are included in the effective interest rate and recognized interest income and expense.

The fees for services provided in stages are recognized upon completion of each stage of transaction, in "Fee income and expenses."

The fees payable or receivable for regular services are also recognized over the term of service in the "Fee income and expenses".

The fees received for a contractual obligation to provide a financial guarantee are deemed to be a fair value of the contractual obligation. The corresponding obligation is further amortized over the term of the contractual obligations under the "Fee income" in the P&L Statement.

4.19 Foreign currency revaluation

Transactions in foreign currencies are recognized in presentation currency by conversion of a foreign currency amount using the official exchange rate vs. the foreign currencies on the date of recognizing the assets, liabilities, equity, income and expenses.

At each subsequent balance sheet date after recognition:

- ✓ all monetary items in foreign currency are recorded in the financial statements at the official hryvnia exchange rate vs the foreign currencies upon each change of the official rate;
- ✓ non-monetary items in foreign currencies accounted at cost are recorded at the official hryvnia exchange rate vs the foreign currencies on the transaction date;

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✓ non-monetary items in foreign currency carried at fair value are recorded at the official hryvnia exchange rate vs foreign currencies on the date of their fair value.
Revenues and expenses (accrued, received, paid) in a foreign currency are recorded at the official hryvnia exchange rate vs foreign currencies on the date of their recognition.
The result of revaluating the assets and liabilities in foreign currency is shown in the item "Result from revaluation of foreign currency" of the Performance Report.

The main exchange rates used for translation of foreign currency balances were as follows:-

Currency	The exchange rate at the end of day on December 31, 2016
643	0.45113
840	28.422604
978	27.190858

4.20 Offsetting the financial assets and financial liabilities

Offsetting the financial assets and financial liabilities, followed by inclusion on their net amount only into the balance sheet can be made when, and only when the Bank has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to sell the asset simultaneously and settle the obligation.

4.21 Employee benefits and related charges

The wages, single social tax, paid annual leaves and sick leaves, bonuses and non-monetary rewards are accrued in the year in which the related services were provided by the Bank employees.
The Bank has no legal or constructive obligation to make pension or similar payments

4.22 Critical accounting estimates and judgments used when applying the accounting policies

The Bank uses the estimates and assumptions affecting the amounts of assets and liabilities recorded in financial statements in the next fiscal year. The estimates and judgments are continually evaluated and based on the management's experience and other factors, including the expectations of future events believed reasonable under the present circumstances. In addition to judgments involving the accounting estimates, the Bank management also uses professional judgment when applying the accounting policies. The professional judgments having the most significant effect on the amounts recognized in financial statements and estimates, which can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- ✓ impairment losses on loans and advances.
The Bank regularly reviews its loan portfolios to assess the impairment. When determining whether the impairment loss must be recognized in the Statement of Financial Result, the Bank uses assumption as to whether there is any observable data indicating a reduction in the estimated future cash flows from the loan portfolio, which can be measured, before the decrease can be matched to an individual loan in that portfolio. This evidence may include observable data indicating an adverse change in solvency of borrowers in a group, or national or local economic conditions correlating with defaults on assets in the group. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling the future cash flows. The methodology and assumptions used to assess both the terms and amounts of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience;
- ✓ tax legislation.
The tax, currency and customs legislation of Ukraine is subject to varying interpretations;
- ✓ initial recognition of related party transactions.
In the normal course of business, the Bank performs transactions with related parties. IAS 39 requires carrying the financial instruments upon initial recognition at fair value. In the absence of an active market for such transactions in order to determine if these transactions were priced at market or non-market rates, the professional judgments are used. The basis for these judgments is pricing for similar types of transactions with unrelated parties and analysis of an effective interest rate.

Note 5. Transition to new and revised standards

Application of approved Accounting Policy implies the use of all existing IFRS related to transactions carried out by the Bank.

A number of existing IFRS was not applied by the Bank due to the fact that the transactions to which such standards should be applied were not performed by the Bank or are non-bank at all.

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Note 6. Cash and cash equivalents

Table 6.1 Cash and cash equivalents

		(UAH '000)	
Line	Line item	December 31, 2016	December 31, 2015
		55,633	2,972
1	Cash	24,348	22,206
2	Due from the National Bank of Ukraine (except for required reserves)	14,488	25,874
3	Correspondent accounts, deposits and overnight loans in banks of:	14,488	25,874
3.1	Ukraine	-	-
3.2	Other countries	94,469	51,052
4	Total cash and cash equivalents		

Given the structure of cash and cash equivalents, a large proportion of funds in the National Bank of Ukraine and cash, the structure of funds placed with other banks, we can conclude their high credit quality.

Note 7. Loans and advances to customers

Table 7.1. Loans and advances to customers

		(UAH '000)	
Line	Line item	December 31, 2016	December 31, 2015
		171,794	138,881
1	Loans to legal entities	1,479	153
2	Loans to individual entrepreneurs	13,885	5,283
3	Mortgage loans to individuals	15,006	12,013
4	Loans to individuals for current needs	(23,683)	(6,850)
5	Provision for loan impairment	178,481	149,480
6	Total loans net of provisions		

As of December 31, 2016, there is no security serving as collateral for loans and advances to customers under repo transactions.

As of December 31, 2016, the accrued income included in this note amounted to UAH 4,323 thousand.

As of December 31, 2016, the maximum credit risk on loans to customers amounted to UAH 44,652 thousand.

Table 7.2. Analysis of change in provisions for outstanding loans for 2016

						(UAH '000)
Line	Changes in provisions	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Loans to individuals for current needs	Total
1	Balance as of December 31, 2015	(472)	-	(2,225)	(4,153)	(6,850)
2	(Increase)/decrease in impairment provision during the year	(10,008)	(451)	(2,072)	(5,214)	(17,745)
3	Derecognised receivable on loans as a result of assignment of those in action	891				891
4	Writing off of bad debts against the provision		-	-	21	21
5	Balance as of December 31, 2016	(9,589)	(451)	(4,297)	(9,346)	(23,683)

Table 7.3. Analysis of changes in provisions for outstanding loans for 2015

					(UAH '000)
Line	Changes in provisions	Loans to legal entities	Mortgage loans to individuals	Loans to individuals for current needs	Total
1	Balance as of December 31, 2014	-	-	-	-
2	(Increase)/decrease in impairment provision during the year	(472)	(2,225)	(4,153)	(6,850)
3	Balance as of December 31, 2015	(472)	(2,225)	(4,153)	(6,850)

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Table 7.4. Structure of loans by economic activity

(UAH '000)

Line	Type of economic activity	December 31, 2016		December 31, 2015	
		sum	%	sum	%
1	Real estate transactions, leasing, engineering and service provision	31,399	15	29,972	19
	Provision of financial services excluding the insurance and pension	34,069	17	30,172	19
2	Trade, repair of motor vehicles, household goods and personal items	26,133	13	6,276	4
3	Agriculture, hunting, forestry	17,995	9	17,107	11
4	Individuals	28,891	14	17,296	11
5	Production (excluding the production and distribution of electricity, gas and water)	4,488	2	21,865	14
6	Construction	57,453	29	32,275	21
7	Other	1,736	1	1,367	1
8	Total loans and advances to customers without provisions	202,164	100	156,330	100

Table 7.5. Information on loans by type of collateral in 2016

(UAH '000)

Line	Line item	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Loans to individuals for current needs	Total
1	Unsecured loans	804	1,255	9,520	12,400	23,979
2	Loans secured by:	170,990	224	4,365	2,606	178,185
2.1	funds	-	-	-	-	-
2.2	securities	28,918	-	-	-	28,918
2.3	real estate	122,701	224	4,365	1,953	129,243
2.3.1	Including for residential purpose	2,152	-	1,331	1,623	5,106
2.4	guarantees and warranties	-	-	-	-	-
2.5	other assets	19,371	-	-	653	20,024
3	Total loans and advances to customers without provisions	171,794	1,479	13,885	15,006	202,164

Table 7.6. Information on loans by type of collateral in 2015

(UAH '000)

Line	Line item	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Loans to individuals for current needs	Total
1	Unsecured loans	451	-	1,598	8,848	10,897
2	Loans secured by:	138,430	153	3,685	3,165	145,433
2.1	funds	-	-	-	-	-
2.2	securities	28,939	-	-	-	28,939
2.3	real estate	77,483	153	3,647	2,440	83,723
2.3.1	Including for residential purpose	3,093	153	3,539	1,362	8,147
2.4	guarantees and warranties	4,331	-	38	254	4,623
2.5	other assets	27,677	-	-	471	28,148
3	Total loans and advances to customers without provisions	138,881	153	5,283	12,013	156,330

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Table 7.7. Analysis of the credit quality of loans for 2016

(UAH '000)

Line	Line item	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Loans to individuals for current needs	Total
1	2	4	6	7	8	10
1	Non-overdue and non-impaired	161,685	1,255	8,964	5,458	177,362
1.1	large borrowers with over two years' credit history	-	-	-	-	0
1.2	major new borrowers	37,833	-	-	-	37,833
1.3	loans to medium-sized companies	31,816	-	-	-	31,816
1.4	loans to small businesses	92,036	-	-	-	92,036
1.5	other loans to individuals and individual entrepreneurs	-	1,255	8,964	5,458	15,677
2	Past due but not impaired	1,373	224	-	134	1,731
2.1	with payment delay within 31 days	-	-	-	91	91
2.2	with payment delay from 32 to 92 days	-	-	-	43	43
2.3	with payment delay from 93 to 183 days	-	224	-	-	224
2.4	with payment delay from 184 to 365 (366) days	1,373	-	-	-	1,373
2.5	with payment delay of more than 366 (367) days	-	-	-	-	-
3	Impaired loans assessed on an individual basis	8,736	-	4,921	9,414	23,071
3.1	with payment delay within 31 days	7,739	-	3,058	4,130	14,927
3.2	with payment delay from 32 to 92 days	-	-	747	696	1,443
3.3	with payment delay from 93 to 183 days	399	-	-	133	532
3.4	with payment delay from 184 to 365 (366) days	30	-	104	1,179	1,313
3.5	with payment delay of more than 366 (367) days	568	-	1,012	3,276	4,856
4	Total loans before provision deduction	171,794	1,479	13,885	15,006	202,164
5	Provision for impairment of loans	(9,589)	(451)	(4,297)	(9,346)	(23,683)
6	Total loans net of provisions	162,205	1,028	9,588	5,660	178,481

Table 7.8. Analysis of the credit quality of loans for 2015

(UAH '000)

Line	Line item	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Loans to individuals for current needs	Total
1	2	4	6	7	8	10
1	Non-overdue and non-impaired	138,119	153	2,493	7,229	147,994
1.1	large borrowers with over two years' credit history	-	-	-	-	-
1.2	major new borrowers	51,763	-	-	-	51,763

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1.3	loans to medium-sized companies	44,122	-	-	-	44,122
1.4	loans to small businesses	42,234	-	-	-	42,234
1.5	other loans to individuals and individual entrepreneurs	-	153	2,493	7,229	9,875
2	Past due but not impaired	450	-	975	806	2,231
2.1	with payment delay within 31 days	450	-	-	169	619
2.2	with payment delay from 32 to 92 days	-	-	971	42	1,013
2.3	with payment delay from 93 to 183 days	-	-	4	595	599
2.4	with payment delay from 184 to 365 (366) days	-	-	-	-	-
2.5	with payment delay of more than 366 (367) days	-	-	-	-	-
3	Impaired loans assessed on an individual basis	312	-	1,815	3,978	6,105
3.1	with payment delay within 31 days	312	-	1,815	2,977	5,104
3.2	with payment delay from 32 to 92 days	-	-	-	-	-
3.3	with payment delay from 93 to 183 days	-	-	-	1,001	1,001
3.4	with payment delay from 184 to 365 (366) days	-	-	-	-	-
3.5	with payment delay of more than 366 (367) days	-	-	-	-	-
4	Total loans before provision deduction	138,881	153	5,283	12,013	156,330
5	Provision for impairment of loans	(472)	-	(2,225)	(4,153)	(6,850)
6	Total loans net of provisions	138,409	153	3,058	7,860	149,480

Table 7.9. The impact of collateral cost on credit quality for 2016

(UAH '000)

Line	Line item	Carrying value of loans	Expected cash flow from collateral sale	Impact of collateral
1	Loans to legal entities	171,794	30,070	141,724
2	Loans to individual entrepreneurs	1,479	52	1,427
3	Mortgage loans to individuals	13,885	3,183	10,702
4	Loans to individuals for current needs	15,006	1,481	13,525
6	Total loans	202,164	34,786	167,378

Table 7.10. The impact of collateral on credit quality for 2015

(UAH '000)

Line	Line item	Carrying value of loans	Expected cash flow from collateral sale	Impact of collateral
1	Loans to legal entities	138,881	79,446	59,435
2	Loans to individual entrepreneurs	153	57	96
3	Mortgage loans to individuals	5,283	2,563	2,720
4	Loans to individuals for current needs	12,013	2,555	9,458
6	Total loans	156,330	84,621	71,709

To assess collateral, the Bank uses a comparative, profitable and, in some cases, cost method.

As of the close of business on December 31, 2016, the balance sheet contains assets held for sale which were repossessed as follows:

No.	The nature of assets	Carrying amount (UAH)
1	Apartments	510,000.00
2	Residential buildings	21,066,100.00
3	Land plots	2,552,800.00

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4	Non-residential buildings	30,042,384.10
5	Equipment	11,258,206.46
6	Goods in circulation	10,226,880.66
Total		75 656 371.22

The Bank plans to sell the assets purchased during the reporting period through repossession of collateral within less than a year.

Note 8. Securities in the bank portfolio available for sale

Table 8.1. Securities in the bank portfolio available for sale

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
		3	4
1	2		
1	Debt securities	28,339	-
1.1	government bonds	28,339	-
2	Provision for impairment of securities in the bank portfolio available for sale	-	-
3	Total securities available for sale less the provisions	28,339	-

Table 8.2. Analysis of credit quality of debt securities in the bank portfolio available for sale during the reporting year

(UAH '000)

Line	Line item	Government bonds	All
1	Non-overdue and non-impaired	28,339	28,339
1.1	Government agencies and enterprises	28,339	28,339
2	Total debt securities in the bank portfolio available for sale less the provisions	28,339	28,339

Note 9. Securities in the bank portfolio held to maturity

Table 9.1. Securities in the bank portfolio held to maturity

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
1	Deposit certificates of the National Bank of Ukraine	450,962	363,948
2	Provision for impairment of securities in the bank portfolio held to maturity	-	-
3	Total securities in the bank portfolio held to maturity less the provisions	450,962	363,948

Table 9.2. Analysis of the credit quality of debt securities in the bank portfolio held to maturity 2016

(UAH '000)

Line	Line item	NBU deposit certificates	Total
1	Debt securities non-overdue and non-impaired	450,962	450,962
1.1	Government agencies and businesses	450,962	450,962
2	Provision for impairment of securities in the bank portfolio held to maturity	-	-
3	Total securities in the bank portfolio held to maturity less the provisions	450,962	450,962

Table 9.3. Analysis of the credit quality of debt securities in the bank portfolio held to maturity 2015

(UAH '000)

Line	Line item	NBU deposit certificates	Total
1	Debt securities non-overdue and non-impaired	363,948	363,948
1.1	Government agencies and businesses	363,948	363,948
2	Provision for impairment of securities in the bank portfolio held to maturity	-	-
3	Total securities in the bank portfolio held to maturity less the provisions	363,948	363,948

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Note 10. Tangible and intangible assets

Table 10.1. Tangible and intangible assets

(UAH '000)

Line	Line item	Buildings, structures and transmission devices	Machinery and equipment	Vehicles	Tools equipment (furniture)	Other fixed assets	Other non-current assets	Incomplete investments in fixed assets and intangible assets	Intangible assets	Total
1	Carrying amount as at December 31, 2014	-	-	-	-	-	-	-	-	-
1.1	Historical (revalued) cost	-	-	-	-	-	-	-	-	-
1.2	Depreciation as at December 31, 2014	-	-	-	-	-	-	-	-	-
2	Revenues	4,429	569	1,072	1,287	-	946	2,849	346	11,498
3	Capital investment for completion of fixed assets and improvement of intangible assets	35	-	-	44	-	4	-	213	296
4	Disposals	-	-	-	(15)	-	(14)	(1,918)	-	(1,947)
5	Depreciation	(55)	(84)	(153)	(118)	-	(858)	-	(31)	(1,299)
6	Carrying amount as at December 31, 2015	4,409	485	919	1,198	-	78	931	528	8,548
6.1	Historical (revalued) cost	4,463	569	1,073	1,315	-	785	931	561	9,697
6.2	Depreciation as at December 31, 2015	(54)	(84)	(154)	(117)	-	(707)	-	(33)	(1,149)
7	Revenues	130	388	1,096	934	336	168	4699	1012	8763
8	Capital investment for completion of fixed assets and improvement of intangible assets	32	-	-	16	-	-	-	370	418
9	Disposals	-	-	-	(21)	-	-	(4613)	-	(4634)
10	Depreciation	(64)	(94)	(153)	(225)	(8)	(176)	0	(273)	(993)
11	Carrying amount as at December 31, 2016	4,507	779	1,862	1,902	328	70	1,017	1,638	12,103

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11.1	Historical (revalued) cost	4,625	957	2,169	2,234	336	929	1,017	1,943	14,210
11.2	Depreciation as at December 31, 2016	(118)	(178)	(307)	(332)	(8)	(859)	-	(305)	(2,107)

Historical (revalued) cost of fully depreciated fixed assets – UAH 824 thousand;

Note 11. Other financial assets

Table 11.1. Other financial assets

		(UAH '000)	
Line	Line item	December 31, 2016	December 31, 2015
1	Receivables under transactions with banks	22	-
2	Receivables under transfers	542	5
3	Receivables under transactions performed through software and hardware self-service machines, ATMs	1	47
4	Other accrued income	475	24
5	Funds serving as collateral of financial security of transactions using the payment cards	975	1,548
6	Funds in bank liquidated at the creditor's request	387	-
7	Assets under forward contracts in the bank trading portfolio	27	-
8	Provision for impairment of the other financial assets	(755)	(8)
9	Total other financial assets less provisions	1,674	1,616

Table 11.2. Analysis of changes in provision for impairment of the other financial assets for 2016

		(UAH '000)		
Line	Changes in provisions	Other accrued income	Funds in bank liquidated at the creditor's request	Total
1	Balance as at December 31, 2015	(8)	-	(8)
2	(Increase)/decrease in impairment provision during the year	(360)	(387)	(747)
3	Balance as at December 31, 2016	(368)	(387)	(755)

Table 11.3. Analysis of changes in provision for impairment of the other financial assets for 2015

		(UAH '000)	
Line	Changes in provisions	Other accrued income	Total
1	Balance as at December 31, 2014	-	-
2	(Increase)/decrease in depreciation provision during the year	(8)	(8)
3	Balance as at December 31, 2015	(8)	(8)

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Table 11.4. Analysis of the credit quality of other financial assets for 2016

(UAH '000)

Line	Line item	Receivables under transactions with banks	Receivables under transfers	Receivables under transactions performed through software and hardware self-service terminals, ATMs	Funds serving as financial collateral under transactions using the payment cards	Other accrued income	Assets under forward contracts in the trading portfolio	Funds in bank liquidated at the creditor's request	Total
1	Non-impaired and non-overdue debt	22	542	1	975	87	27	-	1,654
1.1	Large customers with over 2 years' credit history	22	542	1	975	66	27	-	1,654
1.2	major new customers	-	-	-	-	-	-	-	-
1.3	Medium-sized companies	-	-	-	-	-	-	-	-
1.4	small companies	-	-	-	-	7	-	-	7
	Individuals and individual entrepreneurs	-	-	-	-	14	-	-	14
2	Past due but not impaired debt with payment delay	-	-	-	-	29	-	-	29
2.1	up to 31 days	-	-	-	-	10	-	-	10
2.2	from 32 to 92 days	-	-	-	-	19	-	-	19
2.3	from 93 to 183 days	-	-	-	-	-	-	-	-
2.4	from 184 to 365 (366) days	-	-	-	-	-	-	-	-
2.5	more than 366 (367) days	-	-	-	-	-	-	-	-
3	Debt individually impaired with a delayed payment	-	-	-	-	359	-	387	746
3.1	up to 31 days	-	-	-	-	286	-	-	286
3.2	from 32 to 92 days	-	-	-	-	1	-	-	1
3.3	from 93 to 183 days	-	-	-	-	17	-	-	17
3.4	from 184 to 365 (366) days	-	-	-	-	51	-	-	51
3.5	more than 366 (367) days	-	-	-	-	4	-	387	391
4	Total other financial assets less provisions	22	542	1	975	475	27	387	2,429
5	Provision for impairment of the other financial assets	-	-	-	-	(368)	-	(387)	(755)
6	Total other financial assets less provision	22	542	1	975	107	27	-	1674

Table 11.5. Analysis of the credit quality of other financial assets for 2015

(UAH '000)

Line	Line item	Receivables under transfers	Receivables under transactions performed through software and hardware self-	Funds serving as financial collateral under transactions using the payment cards	Other accrued income	Total

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			service terminals. ATMs			
1	Non-impaired and non-overdue debt	5	47	1,548	10	1,610
1.1	major new customers	5	47	1,548	3	1,603
1.2	individuals and individual entrepreneurs	-	-	-	7	7
2	Individually impaired debt with a delayed payment	-	-	-	14	14
2.1	up to 31 days	-	-	-	14	14
3	Total other financial assets less provision	5	47	1,548	24	1,624
4	Provision for impairment of the other financial assets	-	-	-	(8)	(8)
5	Total other financial assets less provision	5	47	1,548	16	1,616

Note 12. Other assets

Table 12.1. Other assets

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
1	Accounts receivable under asset acquisition	94	384
2	Prepayment for services	988	129
3	Prepaid expenses	3,968	2,598
4	Other assets	420	31
5	Assets held for sale	75,656	40,877
6	Provision for the other assets	(277)	(22)
7	Total other assets less provision	80,849	43,997

Table 12.2. Analysis of change in provision for impairment of the other assets for 2016

(UAH '000)

Line	Changes in provisions	Accounts receivable asset acquisition	Prepayment for services	Total
1	Balance as at December 31, 2015	(11)	(11)	(22)
2	(Increase)/decrease in provision during the period	(23)	(232)	(255)
3	Balance as at December 31, 2016	(34)	(243)	(277)

Table 12.3. Analysis of change in provision for impairment of the other assets for 2015

(UAH '000)

Line	Changes in provisions	Accounts receivable asset acquisition	Prepayment for services	Total
1	Balance as at December 31, 2014	-	-	-
2	(Increase)/decrease in provision during the period	(11)	(11)	(22)
3	Balance as at December 31, 2015	(11)	(11)	(22)

Note 13. Customer deposits

Table 13.1. Customer deposits

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
1	Legal entities	546,299	382,262
1.1	Current accounts	397,282	307,616
1.2	Fixed-term deposits	149,017	74,646
2	Individuals	109,709	73,537
2.1	Current accounts	66,347	42,350
2.2	Fixed-term deposits	43,362	31,187
3	Total customer deposits	656,008	455,799

As of December 31, 2016, the accrued interest expenses included in the customer deposits amounted to UAH 577 thousand.

As of December 31, 2016, the maximum balance on current customer accounts amounted to UAH

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170,546 thousand.

Table 13.2. Customers by economic activity type

(UAH '000)

Line	Economic activity type	December 31, 2016		December 31, 2015	
		sum	%	sum	%
1	Individuals	109,709	17	73,537	16
2	Real estate transactions, leasing, engineering and provision of services	13,284	2	7,132	2
3	Trade, repair of motor vehicles, household goods and personal items	12,636	2	4,104	1
4	Agriculture, hunting, forestry	490	-	39	-
5	Construction of buildings, structures, and specialized construction activities	198,919	30	241,465	53
6	Financial services, except for insurance and pension provision	149,309	23	71,403	16
7	Auxiliary activities in financial services and insurance	132,478	20	37,794	8
8	Other	39,183	6	20,325	4
14	Total customer deposits:	656,008	100	455,799	100

As of December 31, 2016, the funds from businesses and individuals attracted by the Bank in the amount of UAH 4,960 thousand were executed as collateral under the provided guarantees, namely:

- individuals' funds – UAH 200 thousand
- corporate funds – UAH 4,760 thousand

Note 14. Provisions for liabilities

Table 14.1. Changes in provisions for liabilities for 2016

(UAH '000)

Line	Changes in provisions	Lending commitments
1	Balance as at December 31, 2015	1
2	Formation and/or increase in provision	406
3	Balance as at December 31, 2016	407

The amount of provision for liabilities includes:

- provision for guarantees issued – UAH 25 thousand
- provision of credit lines and overdrafts – UAH 382 thousand

Note 15. Other financial liabilities

Table 15.1. Other financial liabilities

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
1	Payables under transactions with payment cards	882	97
2	Payables under transactions of foreign currency sale	288	2,744
3	Payables under payments received	1,593	2
4	Other financial liabilities	386	12
5	Total other financial liabilities	3,149	2,855

Note 16. Other liabilities

Table 16.1. Other liabilities

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
1	Deferred income	188	6
2	Payables under taxes and fees, except for income tax	174	143
	Payables under acquisition of assets	32	-
3	Payables for services	218	1,940
4	Payables for contributions to the Individual Deposit Guarantee Fund	154	94
5	Payables under settlements with bank employees	1,632	552
6	Accrued lease expenses	61	351
7	Total	2,459	3,086

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Note 17. Share capital and share premium

Table 17.1. Share capital and share premium

(UAH '000)

Line	Line item	Number of outstanding shares (thousand pcs)	Ordinary shares	Total
1	2	3	4	7
1	Balance as at December 31, 2015	12,052.2	12,052.2	120,522
2	Contributions for shares of new issue	12,052.2	12,052.2	120,522
3	Balance as at December 31, 2016	12,052.2	12,052.2	120,522

The number of shares issued and paid is 12,052,250.

The par value per share is UAH 10.00.

Note 18. Movement of revaluation reserves (components of the other comprehensive income)

Table 18.1. Movement of revaluation reserves (components of the other comprehensive income)

(UAH '000)

Line	Line item	Notes	December 31, 2016	December 31, 2015
1	Balance at the beginning of the year		-	-
2	Revaluation of securities in the bank portfolio available for sale		285	-
3	Balance as at December 31, 2016		285	-

Note 19. Analysis of assets and liabilities by maturity

Table 19.1. Analysis of assets and liabilities by maturity

(UAH '000)

Line	Line item	Notes	December 31, 2016			December 31, 2015		
			less than 12 months	more than 12 months	Total	less than 12 months	more than 12 months	Total
ASSETS								
1	Cash and cash equivalents	6	94,469	-	94,469	51,052	-	51,052
2	Loans and advances to customers	7	103,783	74,698	178,481	88,512	60,968	149,480
3	Securities available for sale	8	-	28,339	28,339	-	-	-
4	Securities held to maturity	9	450,962	-	450,962	363,948	-	363,948
5	Receivables in respect of the current income tax		14,209	-	14,209	-	-	-
6	Deferred tax assets	25	176	-	176	-	-	-
7	Tangible and intangible assets	10	394	11,709	12,103	-	8,548	8,548
8	Other financial assets	11	1,674	-	1,674	1,616	-	1,616
9	Other assets	12	80,849	-	80,849	43,997	-	43,997
10	Total assets		746,516	114,746	861,262	549,125	69,516	618,641
LIABILITIES								
11	Customer deposits	13	655,354	654	656,008	455,469	330	455,799
12	Liabilities under the current income tax		-	-	-	6,610	-	6,610
13	Deferred tax liabilities		-	-	-	12	-	12
14	Provisions for liabilities	14	392	15	407	1	-	1
15	Other financial liabilities	15	3,149	-	3,149	2,855	-	2,855
16	Other liabilities	16	2,459	-	2,459	3,086	-	3,086
17	Total liabilities		661,354	669	662,023	468,033	330	468,363

Note 20. Interest income and expenses

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Table 20.1. Interest income and expenses

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
	Interest income:		
1	Loans and advances to customers	36,896	38,467
2	Correspondent accounts with other banks	292	1,488
3	Due from banks	1,882	3,175
4	Securities available for sale	454	
5	Securities held to maturity	57,575	16,874
6	Total interest income	97,099	60,004
	Interest expenses:		
7	Short-term loans from the National Bank of Ukraine	-	(217)
8	Fixed-term deposits of legal entities	(4,264)	(323)
9	Current accounts	(4,450)	(169)
10	Fixed-term deposits of individuals	(5,924)	(7,607)
11	Total interest expenses	(14,638)	(8,316)
12	Net interest income/(expense)	82,461	51,688

Note 21 Fee income and expenses

Table 21.1. Fee income and expenses

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
	Fee income:		
1	Clearing transactions	14,863	3,046
2	Other	1,010	252
3	Total fee income	15,873	3,298
	Fee expenses:		
4	Clearing transactions	(1,427)	(521)
5	Security transactions	(10)	(17)
6	Other	(174)	(23)
7	Total fee expenses	(1,611)	(561)
8	Net fee income/expenses	14,262	2,737

Note 22. Other operating income

Table 22.1. Other operating income

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
1	Revenue from fines, penalties	69	230
2	Income from interest transferred on deposits	20	2,247
3	Income from credit transactions	35,974	31,271
4	Income from operating lease (rental)	315	15
5	Income from sale of collateral	234	-
6	Result from sale of fixed assets	25	-
7	Total operating income	36,637	33,763

Note 23. Administrative and other operating expenses

Table 23.1. Administrative and other operating expenses

(UAH '000)

Line	Line item	Notes	December 31, 2016	December 31, 2015
1	Staff costs		(31,689)	(16,777)
2	Depreciation of fixed assets	10	(720)	(1,270)
3	Amortization of software and other intangible assets	10	(273)	(31)
4	Cost of maintaining equipment and intangible assets, telecommunication and other operational services		(6,740)	(3,440)
5	Cost of operating lease (rental)		(6,374)	(1,702)
6	Professional services		(459)	(168)
7	Marketing and advertising costs		(141)	(19)
8	Insurance costs		(5,123)	(1,882)

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Line	Line item	Notes	December 31, 2016	December 31, 2015
9	Payment of other taxes and duties, other than income tax		(2,020)	(947)
10	Negative result from debt assignment		-	(11,269)
11	Other expenses		(2,714)	(3,174)
12	Total administrative and other operating expenses		(56,253)	(40,679)

Note 24. Income tax expenses

Table 24.1. Income tax expenses

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
1	Current income tax	(10,287)	(6,622)
2	Deferred income tax	188	(12)
3	Total income tax expense	(10,099)	(6,634)

Table 24.2. Reconciliation of accounting profit (loss) and taxable income (loss)

(UAH '000)

Line	Line item	December 31, 2016	December 31, 2015
1	Profit before tax	58,775	36,390
2	Theoretical tax deductions under the relevant tax rate	(10,580)	(6,550)
ADJUSTMENT OF ACCOUNTING PROFIT (LOSS):			
3	Costs not included in the total cost to calculate a taxable income, but recognized in accounting, including:	(416)	(243)
3.1	Total accumulated depreciation of fixed assets and intangible assets	(159)	(235)
3.2	Amount of residual value of an individual fixed asset or intangible assets in the event of liquidation or sale of such facility	(4)	(4)
3.3	Total risk provisions for doubtful debts	(253)	(4)
4	Costs included in the total cost to calculate taxable income but not recognized in accounting	138	188
4.1	Total accumulated depreciation of fixed assets and intangible assets	135	186
4.2	The amount of residual value of an individual fixed asset or intangible assets in the event of liquidation or sale of such facility	3	2
5	Income to be profit-taxed but not recognized (not included) in accounting income (loss), including:	-	(20)
5.1	Income from purchase and sale of chose in action (difference for 2014)	-	(20)
6	Changes in the amount of a net deferred tax asset not reflected in the statements	188	(12)
7	Other adjustments	571	3
7.1	Reduction of the amount of income tax due to a paid property tax	571	3
8	Expenses for income tax	(10,099)	(6,634)

The income tax rate as established by the tax laws of Ukraine at 18% is applied on a regular basis.

Table 24.3. Tax consequences related to recognition of deferred tax assets and deferred tax liabilities for 2016
 (UAH '000)

Line	Line item	Balance as at December 31, 2015	Recognized in profit/loss	Balance as at December 31, 2016
1	Tax effect of temporary differences reducing (increasing) the amount of tax and tax losses carried forward	(12)	188	176
1.1	Fixed assets	(16)	(67)	(83)
1.2	Provisions for doubtful debts	4	255	259
2	Net deferred tax asset (liability)	(12)	188	176
3	Recognized deferred tax asset	4	255	259
4	Recognized deferred tax liability	(16)	(67)	(83)

Note 25. Profit/loss per ordinary and preferred share

Table 25.1. Net profit/loss per ordinary share

(UAH '000)

Line	Line item	Notes	December 31, 2016	December 31, 2015
1	Profit/(loss) attributable to shareholders of ordinary bank shares		48,675	29,756

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2	Profit (loss) for the year	48,675	29,756
3	The average annual number of ordinary outstanding shares (thousand pcs.)	12,052.2	12,052.2
4	Pure and adjusted profit (loss) per ordinary share (UAH)	4.0	2.5

Note 26. Financial risk management

Credit risk

Credit risk is the risk associated with the borrower's failure to meet their obligations to the Bank, and non-payment of principal and interest thereon. When determining the credit policy, CRISTALBANK PJSC uses the principles of the weighted credit risk assessment and adheres to a balanced approach to the credit procedures to effectively manage and control the lending process. The Bank provides loans according to the approved procedure involving the analysis and assessment, approval, tracking and control over financial assets.

As regards the credit risk management methods, the Bank uses two groups of methods: methods of credit risk management at the individual loan level, and management practices at the level of the loan portfolio. The first group of methods includes the analysis of the borrower's creditworthiness, analysis and assessment of credit, loan structuring, documenting of loan transactions, monitoring of loans and collateral status. The credit risk analysis is focused on five key areas, namely financial aspect determining the borrower's ability to generate a cash flow sufficient to repay the loan; sectoral aspect reflecting the processes of industry development and customer's competitive position, and being a part of the overall credit risk of the borrower; administrative aspect assessing the management quality and leadership effectiveness; loan collateral quality aspect determining the level of collateral monitoring by the Bank, as well as the possibilities and conditions of sale; a moral and ethical aspect reflecting the borrower's willingness to repay the loan.

The credit portfolio risk management methods include diversification (sectoral, geographic, portfolio-based), limitation, and provisioning for compensation of losses under credit transactions. During limitation, CRISTALBANK PJSC was guided by requirements of the National Bank of Ukraine set forth in the Regulations on Banks in Ukraine, and when creating provisions – by provisions of the National Bank of Ukraine and requirements of international financial reporting standards.

The Bank introduced a continuous monitoring and control of credit risk. For this, an effective risk management structure was developed, and standing risk management committees were established.

A standing joint management body in the Bank is a Credit Committee. The Credit Committee aims at coordinating the measures and actions for effective use of Bank resources and placement of funds in active transactions.

The participants of the credit risk management system is also a Risk Department in terms of detection, assessment, and analysis of credit risks, development and implementation of appropriate methodologies for credit risk management according to functions and responsibilities, and the Supervisory Board as regards making decisions on active transactions outside the competence of the Credit Committee.

The Bank shall timely and fully form the provisions for possible losses under the granted loans and other active transactions. CRISTALBANK PJSC calculates the amounts and create provisions (if necessary) to cover the risks of potential losses:

- ✓ for outstanding loans granted to customers and banks;
- ✓ for accounts receivable;
- ✓ for outstanding funds placed on correspondent accounts;
- ✓ for impairment of securities in the Bank portfolio.

During the reporting period, the Bank complied with credit risk standards set by the NBU.

Market risk

The market risk is a system of measures to minimize and protect against the risks arising from adverse fluctuations in the value of securities, commodities, and foreign exchange rates kept in the trading portfolio.

The objective of market risk management is to achieve the planned level of Bank profitability subject to the level of risk acceptable for shareholders, i.e. minimizing losses from unexpected fluctuations.

The Bank's policy provides for investing only in securities with high reliability.

Assessment/measurement of the market risk is carried out by analyzing the dynamics of change in the market value of securities available in the trade portfolio, the dynamics of exchange rates in the domestic and international financial markets. Also, the fair value of securities is determined regularly on the balance sheet date. The Bank market risk is managed through diversification of the Bank's securities in the trade portfolio; monitoring of the net spread, net interest margin, net interest positions and their adequacy to a comparison group of banks; adherence to standards of capital and foreign exchange risk; conducting of hedging transactions and other measures to minimize the market risk of the Bank.

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The Bank introduced the management reporting enough to make decisions to manage the market risk.

Currency risk

The Bank business in the currency markets is to manage assets and liabilities in foreign currency and is related to foreign currency risk (one of the market risk element) arising from the use of different currencies during banking transactions.

The Bank currency risk management system, the Bank permanently identifies, measures, controls and monitors the currency risk by all areas of the Bank business at all organizational levels.

This system includes:

- ✓ methodological support (design, implementation of internal regulations and risk management procedures), establishment of a permanent unit of currency risk management focused on functions to manage this risk, informing the management of the currency risk, acceptability of its level and providing suggestions on the need for making appropriate decisions by the management;

- ✓ Bank currency position management mechanism in accordance with approved policies and regulations on foreign exchange transactions and currency risk management;

- ✓ forms of the management reporting on the currency position by currency on an individual and aggregate basis, the procedure and frequency of submission of which was approved by internal regulation of the Bank.

Besides, the effective currency risk management is ensured by:

- ✓ periodic review of the Bank's open currency position by using the "cost/income" risk models to measure sensitivity to changes in exchange rates;

- ✓ hedging methods used to reduce the amount of currency risk.

The currency risk management is based on the chosen currency risk management strategy containing the following elements:

- ✓ centralization of currency risk management;

- ✓ use of all possible measures to avoid risk, leading to significant losses;

- ✓ control and minimization of amounts of damages, if there is no possibility of avoiding risk;

- ✓ hedging of the currency risk when it cannot be avoided.

To determine the currency risk, the following factors are used:

- ✓ the status of the Bank foreign exchange position;

- ✓ discrepancy/unbalanced status of amounts of cash flows in foreign currencies;

- ✓ the influence of changes in exchange rates on the value of revenues to capital.

Methods of currency risk management, including setting the limits and methods of risk analysis established by the Bank Regulation on Currency Risk Management

Table 26.1. Currency risk analysis

(UAH '000)

Line	Currency name	December 31, 2016				December 31, 2015			
		monetary assets	monetary liabilities	derivatives	net position	monetary assets	monetary liabilities	derivatives	net position
1	US Dollars	41,620	40,245	-	1,375	8,203	8,535	-	(332)
2	Euro	2,914	3,109	-	(195)	855	781	-	74
3	Other	1	0	-	1	7	-	-	7
4	Total	44,535	43,354	-	1,181	9,065	9,316	-	(251)

Table 26.2. Change of profit or loss and equity as a result of possible changes in the official rate of hryvnia vs foreign currencies established on the reporting date, assuming that all other variables are kept constant

(UAH '000)

Line	Line item	December 31, 2016		December 31, 2015	
		impact on profit/(loss)	impact on equity	impact on profit/(loss)	impact on equity
1	Strengthening of the US dollar by 30%	413	413	(100)	(100)
2	Weakening of the US dollar by 20%	(275)	(275)	66	66
3	Strengthening of the euro by 30%	(59)	(59)	22	22
4	Weakening of the euro by 20%	39	39	(15)	(15)
5	Strengthening of the other currencies and precious metals	0	0	2	2
6	Weakening of the other currencies and precious metals	(1)	(1)	(1)	(1)

Table 26.3 Change in profit or loss and equity as a result of possible changes in the official rate of hryvnia vs foreign currencies set as the average weighted rate, assuming that all other variables are kept constant

(UAH '000)

Line	Line item	December 31, 2016		December 31, 2015	
		impact on	impact on	impact on	impact on

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		profit/(loss)	equity	profit/(loss)	equity
1	Strengthening of the US dollar by 30%	388	388	(100)	(100)
2	Weakening of the US dollar by 20%	(258)	(258)	66	66
3	Strengthening of the euro by 30%	(58)	(58)	22	22
4	Weakening of the euro by 20%	39	39	(15)	(15)
5	Strengthening of the other currencies and precious metals	0	0	2	2
6	Weakening of the other currencies and precious metals	(1)	(1)	(1)	(1)

Interest rate risk

Interest rate risk is the actual or potential risk to earnings or capital arising from adverse changes in interest rates. This risk affects both the Bank's profitability and economic value of its assets, liabilities and off-balance sheet instruments.

The Bank has established an effective system of interest rate risk management:

- ✓ collegial bodies of the Bank Board (Asset and Liability Management Committee, Credit Committee) within delegated authorities are responsible for coordination of the Bank structural units involved in management of the interest rate risk by setting interest rates and other associated conditions (fees etc.) under active and passive transactions, analysis and monitoring of performance and interest rate risk parameters;
- ✓ structural business units of the Bank, having a direct or indirect influence on the level of interest rate risk, are obliged to coordinate their ongoing activities with restrictions set by the Supervisory Board, Management Board, ALMC, Credit Committee and are responsible for enforcement of ALMC decisions on the interest rate risk management .

The Bank introduced an interest rate risk management as a central process carried out at the Central Bank level. The actors of this process are the Supervisory Board, the Management Board, the ALMC, and the Credit Committee, structural business units of the Bank and Risk Department.

The Bank introduces appropriate systems for administration, evaluation and monitoring of assets and liabilities:

- ✓ The Bank establishes and maintains a proper status of the current administration system for interest-bearing active and passive transactions by amounts, interest rates and maturity (calculation and monitoring of static and dynamic gaps between interest-bearing assets and liabilities, as well as the weighted average terms);
- ✓ The Bank introduces a system of measurement and assessment of interest rate risk in accordance with the nature, scope and complexity of its transactions at specific organizational levels of the Bank and uses simulation and stress testing;
- ✓ The Bank implements appropriate information and analytical tools allowing the management to assess the interest rate risk, including the balance sheet and off-balance sheet transactions. The management reporting system aims at providing its users with adequate information about the size and structure of interest-bearing assets and liabilities, the yield of interest-bearing assets and expenses of interest-bearing liabilities, interest rate indexes, profitability of net assets, the weighted average terms of the interest-bearing assets and interest-bearing liabilities, and GAP-analysis;
- ✓ when assessing the interest rate risk, the Bank takes into account the potential future changes in the economic environment, changes in the market interest rates, and forecast movement of interest rate transactions.

The assessment methods and interest rate risk management tools are defined in the Bank Regulation on the Interest Rate Risk Management.

Table 26.4. Comprehensive interest rate risk analysis

(UAH '000)							
Line	Line item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Financial instruments not exposed to the interest rate risk	Total
2016							
1	Total financial assets	518,350	42,899	29,156	95,257	68,263	753,925
2	Total financial liabilities	642,566	13,384	827	-	2,380	659,157
3	Net interest rate gap at the close of business day on December 31, 2016	(124,216)	29,515	28,329	95,257	65,883	94,768
2015							
4	Total financial assets	258,511	172,171	23,326	60,968	51,120	566,096
5	Total financial liabilities	449,187	6,282	-	330	2,855	458,654
6	Net interest rate gap at the close of business day on December 31, 2015	(190,676)	165,889	23,326	60,638	48,265	107,442

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Table 26.5. Monitoring of interest rates on financial instruments

Line	Line item	2016				2015			
		UAH	USD	EUR	Other	UAH	USD	EUR	Other
	Assets								
1	Cash and cash equivalents	-	-	-	-	8	1	-	-
2	Loans and advances to customers	24	-	-	-	22	-	-	-
3	Debt securities held to maturity	14	7	-	-	20	-	-	-
	Liabilities					-	-	-	-
4	Customer deposits	5	3	1	-	3	2	3	-
4.1	Current accounts	2	-	-	-	-	-	-	-
4.2	Fixed-term deposits	13	5	3	-	15	6	5	-

Geographic risk

The Bank operates only in Ukraine. It has no branches, representative offices or representatives operating overseas.

Table 26.6. Analysis of geographic concentration of financial assets and liabilities for 2016

Line	Line item	(UAH '000)	
		Ukraine	Total
1	2	3	6
	Assets		
1	Cash and cash equivalents	94,469	94,469
2	Loans and advances to customers	178,481	178,481
	Securities available for sale	28,339	28,339
3	Securities held to maturity	450,962	450,962
4	Other financial assets	1,674	1,647
5	Total financial assets	753,925	753,925
	Liabilities		
6	Customer deposits	656,008	656,008
7	Other financial liabilities	3,149	3,066
8	Total financial liabilities	659,157	659,157
9	Net balance sheet position under financial instruments	94,768	94,768

Table 26.7. Analysis of geographic concentration of financial assets and liabilities for 2015

Line	Line item	(UAH '000)	
		Ukraine	All
1	2	3	6
	Assets		
1	Cash and cash equivalents	51,052	51,052
2	Loans and advances to customers	149,480	149,480
3	Securities held to maturity	363,948	363,948
4	Other financial assets	1,616	1,616
5	Total financial assets	566,096	566,096
	Liabilities		
6	Customer deposits	455,799	455,799
7	Other financial liabilities	2,855	2,855
8	Total financial liabilities	458,654	458,654
9	Net balance sheet position under financial instruments	107,442	107,442

Other risk concentrations (innovative risk)

The price risk is managed to limit the size of possible losses on open positions, which may be incurred by the Bank for a set period of time with a certain probability due to unfavorable changes in exchange rates, quotations of securities, interest rates, by establishing a system of appropriate limits for each type of transactions, and monitoring of the set limit system.

To estimate the market price risk, VaR methodology used. The basis for risk assessment is the change in rates and prices for instruments over a specified period of time in the past.

During 2016, the Bank was not exposed to the other price risks.

Liquidity risk

Liquidity management process is one of important processes subject to daily monitoring. Liquidity is defined as the Bank's ability to meet its obligations timely and fully. Liquid assets include the assets sold easily in the market for cash with a minimum price risk. The main source of liquid funds is cash markets in which the Bank operates.

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Line	Line item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
	Assets					
1	Cash and cash equivalents	94,469	-	-	-	94,469
2	Loans and advances to customers	41,654	24,623	37,459	72,750	178,481
3	Securities available for sale	28,339	-	-	-	28,339
4	Securities held to maturity	450,962	-	-	-	450,962
5	Other financial assets	1,674	-	-	-	1,674
6	Total financial assets	617,098	24,623	37,459	72,750	753,925
	Liabilities					
7	Customer deposits	641,830	10,828	3,296	54	656,008
8	Other financial liabilities	3,149	-	-	-	3,149
9	Total financial liabilities	644,979	10,828	3,296	54	659,157
10	Net liquidity gap at the close of business on December 31, 2016	(27,881)	13,795	34,163	72,696	94,768
11	Cumulative liquidity gap at the close of business on December 31, 2016	(27,881)	(14,086)	20,077	92,773	94,768

Table 26.11 Analysis of financial assets and liabilities by maturity based on expected maturities for 2015

(UAH '000)

Line	Line item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	51,052	-	-	-	-	51,052
2	Loans and advances to customers	4,489	60,697	23,326	60,717	251	149,480
3	Securities held to maturity	252,473	111,475	-	-	-	363,948
4	Other financial assets	1,605	5	3	3	-	1,616
5	Total financial assets	309,619	172,177	23,329	60,720	251	566,096
	Liabilities						
6	Customer deposits	449,187	6,281	1	330	-	455,799
7	Other financial liabilities	2,854	-	1	-	-	2,855
8	Total financial liabilities	452,041	6,281	2	330	-	458,654
9	Net liquidity gap at the close of business on December 31, 2015	(142,422)	165,896	23,327	60,390	251	107,442
10	Cumulative liquidity gap at the close of business on December 31, 2015	(142,422)	23,474	46,801	107,191	107,442	0

Note 27. Capital management

One of the most important indicators of the Bank's business is regulatory capital, the primary purpose of which is to cover the negative effects of a variety of risks assumed in the course of the Bank's business and to protect deposits, financial stability and sustainability of the Bank.

The structure of regulatory capital is provided in accordance with elements included in the calculation of regulatory capital under the law. Calculation is presented according to statistical reporting (File A4) as of December 31, 2016.

When managing the capital, the Bank aims at meet the requirements of the National Bank of Ukraine on the minimum capital and capital coverage of active transactions to ensure continued operation of the Bank. The Bank carries out daily monitoring of compliance with requirements of the National Bank of Ukraine on capital. During the year, the Bank complied with the established capital standards.

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According to form 611, on December 31, 2016, the regulatory capital adequacy (H2) is 61.46% compared to 66.99% as at December 31, 2015 (the regulatory minimum is 10%).

The Bank does not operate internationally and does not prepare reports according to a full consolidation method as required by the Basel Accord.

Table 27.1. Regulatory capital structure

		(UAH '000)	
Line	Line item	December 31, 2016	December 31, 2015
1	Fixed assets	119,371	119,177
1.1	Authorized capital	120,522	120,522
1.2	Intangible assets	(2,639)	(1,345)
1.3	Reserve funds	1,488	-
2	Additional capital	76,296	16,600
2.1	Estimated revenue	46,891	18,879
2.1.1	Current financial result	48,676	29,756
2.1.2	Accrued income not received	(1,785)	(10,877)
2.2	Retained earnings of previous years	28,268	-
2.3	Uncovered credit risk	(530)	(2,362)
2.4	Provision for debts	1,667	83
3	Regulatory capital without reduction	195,667	135,777
4	Total regulatory capital	195,667	135,777

Note 28. Bank contingencies

a) legal proceedings

At the close of business on December 31, 2016, there are cases pending consideration in court, namely:

- four claims of depositors and other creditors totaling UAH 1,460,621.
- one debtor's claim totaling UAH 298,919.

b) potential tax liabilities

The tax authorities can audit the tax issues in the financial periods for three calendar years after their expiration. Under certain circumstances, audits may cover longer periods. The tax authorities may take a more assertive position in their interpretation of law, so additional amounts of taxes, fines and penalties may be levied.

The Bank management takes steps to prevent all sorts of tax risks and influence of the possible adverse effects therefrom.

c) obligations under capital investments

The Bank has no obligation in respect of irrevocable capital investments under non-cancellable contracts

d) operating lease commitments (rental)

The Bank has no irrevocable obligation under irrevocable operating lease agreements.

e) lending commitments

Table 28.1. Lending commitment structure

		(UAH '000)	
Line	Line item	December 31, 2016	December 31, 2015
1	Provided lending commitments	9,344	-
2	Unused credit lines	41,372	81
3	Issued guarantees	13,185	156
4	Provisions for liabilities associated with lending	(407)	(1)
	Total liabilities related to lending net of provisions	63,494	236

Table 28.2. Lending commitments by currency

		(UAH '000)	
Line	Line item	December 31, 2016	December 31, 2015
1	UAH	62,270	236
2	USD	1,224	-
3	Total	63,494	236

Note 29. Fair value of assets and liabilities

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Disclosure of the fair value of financial instruments is made in accordance with IFRS 13 "Fair Value Measurement" and IAS 32 "Financial Instruments: Disclosure and Presentation". The estimated fair value of financial assets and liabilities is determined by the Bank using the market information (if any) and appropriate valuation methodologies. However, to interpret the market data in order to determine the estimated fair value, a subjective judgment is necessarily required. As is known, Ukraine's economy displays characteristics of an emerging market, and its activity in financial markets is still low. The estimates presented herein are not necessarily indicative of the amounts the Bank could actually receive from sale of the existing holdings of particular instruments.

Financial instruments carried at fair value

The Bank uses the following hierarchy of determining and disclosing the fair value of financial instruments according to the valuation model:

- ✓ Level 1: quotation (unadjusted) of identical assets or liabilities in active markets;
- ✓ Level 2: valuation technique using observable inputs derived directly or indirectly as inputs affecting the fair value;
- ✓ Level 3: valuation techniques using the non-market data as inputs affecting the fair value.

Table 29.1. The fair value and hierarchy levels of input methods used for asset and liability valuation techniques for 2016 (UAH '000)

Line	Line item	Fair value under various assessment models			Total fair value	Total carrying cost
		market quotations (Level 1)	assessment model using observational data (Level 2)	valuation model using indicators not confirmed by the market data (Level 3)		
1	2	3	4	5	6	7
1	ASSETS					
1	Securities available for sale	28,339	-	-	28,339	28,339
1.1	Government bonds refinanced by the National Bank of Ukraine	28,339	-	-	28,339	28,339
2	Total assets	28,339	-	-	28,339	28,339

Note 30. Presentation of financial instruments by measurement category

Table 30.1. Financial assets by measurement category for 2016 (UAH '000)

Line	Line item	Credits and receivables	Assets available for sale	Investments held to maturity	Financial assets at fair value through profit (loss)		Total
					trade assets	assets accounted for at fair value through profit or loss	
1	2	3	4	5	6	7	8
	Assets						
1	Cash	94,469	-	-	-	-	94,469
2	Loans and advances to customers	178,481	-	-	-	-	178,481

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2.1.	Loans to legal entities	162,205	-	-	-	-	162,205
2.2.	Loans to individual entrepreneurs	1,028	-	-	-	-	1,028
2.3.	Mortgage loans to individuals	9,588	-	-	-	-	9,588
2.4.	Loans to individuals for current needs	5,660	-	-	-	-	5,660
3	Securities available for sale		28,339	-	-	-	28,339
3.1	Government bonds refinanced by the National Bank of Ukraine	-	28,339	-	-	-	28,339
4	Securities held to maturity	-	-	450,962	-	-	450,962
4.1.	NBU deposit certificates	-	-	450,962	-	-	450,962
5	Other financial assets	1,674	-	-	-	-	1,674
5.1	Receivables under transactions with banks	22	-	-	-	-	22
5.2.	Receivables under transfers	542	-	-	-	-	542
5.3.	Receivables under transactions performed through software and hardware of self-service machines, ATMs	1	-	-	-	-	1
5.4.	Other accrued income	107	-	-	-	-	107
5.5	Money in the bank being liquidated at the creditor's request	-	-	-	-	-	-
5.6.	Funds serving as financial collateral under transactions using the payment cards	975	-	-	-	-	975
5.7	Assets under forward contracts in the trading portfolio	27	-	-	-	-	27
5	Total financial assets	274,624	28,339	450,962	-	-	753,925

Table 30.2. Financial assets by measurement category for 2015

(UAH '000)

Line	Line item	Credits and receivables	Assets available for sale	Investments held to maturity	Financial assets at fair value through profit (loss)		Total
					trade assets	assets accounted for at fair value through profit or loss	
1	2	3	4	5	6	7	8
	Assets						
1	Cash	51,052	-	-	-	-	51,052

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2	Loans and advances to customers	149,480	-	-	-	-	149,480
2.1.	Loans to legal entities	138,409	-	-	-	-	138,409
2.2.	Loans to individual entrepreneurs	153	-	-	-	-	153
2.3.	Mortgage loans to individuals	3,058	-	-	-	-	3,058
2.4.	Loans to individuals for current needs	7,860	-	-	-	-	7,860
3	Securities held to maturity	-	-	363,948	-	-	363,948
3.1.	NBU deposit certificates	-	-	363,948	-	-	363,948
4	Other financial assets	1,616	-	-	-	-	1,616
4.1.	Receivables under transfers	5	-	-	-	-	5
4.2.	Receivables under transactions performed through software and hardware of self-service machines, ATMs	47	-	-	-	-	47
4.3.	Other accrued income	16	-	-	-	-	16
4.4.	Funds serving as financial collateral under transactions using the payment cards	1,548	-	-	-	-	1,548
5	Total financial assets	566,096	-	363,948	-	-	566,096

Note 31. Related party transactions

Table 31.1. Balances under transactions with related parties as at December 31, 2016

(UAH '000)

Line	Line item	Major participants (shareholders) of the bank	Top management	Other related parties
1	Loans and advances to customers (the contractual interest rate is 20%, 32%)	-	1	70
2	Provision for loans as at December 31	-	-	(32)
3	Customer deposits (the contractual interest rate is 0 to 22%)	417	2,313	80,688
4	Other assets	-	-	-
5	Provisions for liabilities	-	5	2
6	Other liabilities	2	541	160

Table 31.2. Balances under transactions with related parties as at December 31, 2015

(UAH '000)

Line	Line item	Major participants (shareholders) of the bank	Top management	Other related parties
1	Loans and advances to customers (the contractual interest rate is 20%)	-	-	45
2	Provision for loans as at December 31	-	-	(9)
3	Customer deposits (the contractual interest rate is 0 to 22%)	259	1,015	3,855

Table 31.3. Income and expenses from transactions with related parties for 2016

(UAH '000)

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Line	Line item	Major participants (shareholders) of the bank	Top management	Other related parties
1	Interest income	-	3	18
2	Interest expense	(82)	(47)	(1,775)
3	Fee income	31	38	52
4	Allocations to provision for loan impairment	-	-	(23)
5	Other operating income	-	5	2
6	Charges to provisions for liabilities	-	(10,233)	(4,554)
7	Administrative and other operating expenses	-	-	-

Table 31.4. Income and expenses from transactions with related parties for 2015 (UAH '000)

Line	Line item	Major participants (shareholders) of the bank	Top management	Other related parties
1	Interest income	-	-	13
2	Interest expense	(5)	(6)	(128)
3	Fee income	-	-	2
4	Allocations to provision for loan impairment	-	-	(9)
5	Other operating income	-	-	-
6	Administrative and other operating expenses	-	(2,156)	(2,182)

Table 31.5 Other rights and obligations with related parties as at December 31, 2016 (UAH '000)

Line	Line item	Top management	Other related parties
1	Other liabilities	49	35

Table 31.6. The total amount of loans granted to and repaid by related parties during 2016 (UAH '000)

Line	Line item	Top management	Other related parties
1	Loans granted to related parties during the year	195	101
2	Loans repaid by related parties during the year	171	108

Table 31.7. The total amount of loans granted to and repaid by related parties during 2015 (UAH '000)

Line	Line item	Top management	Other related parties
1	Loans granted to related parties during the year	-	-
2	Loans repaid by related parties during the year	-	75

Table 31.8. Payments to the top management (UAH '000)

Line	Line item	2016		2015	
		costs	accrued liability	costs	accrued liability
1	Current employee benefits	10,147	538	2,030	98
2	Retirement benefits	26	-	19	-
3	Total	10,173	538	2,049	98

Note 32. Subsequent events

The Bank experiences events not adjusting the financial statements, but which the management considers necessary to disclose in these financial statements.

The Bank has taken steps aimed at fulfillment of decision of the Bank shareholders dated December 08, 2016 to increase the authorized capital, in particular, the National Commission on Securities and Stock Market registered the prospectus of the Bank shares and issued a temporary certificate of registration of share issue No. 05/1/2017-T dated January 24, 2017.

Переклад тексту цього документа з української мови на англійську мову виконано мною, перекладачем Макаренко Анною Миколаївною

Перекладач  Макаренко Анна Миколаївна

Герман О.С.

Місто Київ, Україна

Дев'ятнадцятого квітня дві тисячі сімнадцятого року я, _____, приватний нотаріус Київського міського нотаріального округу, засвідчую вірність цієї копії з оригіналу документа; в останньому підчисток, дописок, закреслених слів, незастережених виправлень або інших особливостей не виявлено.

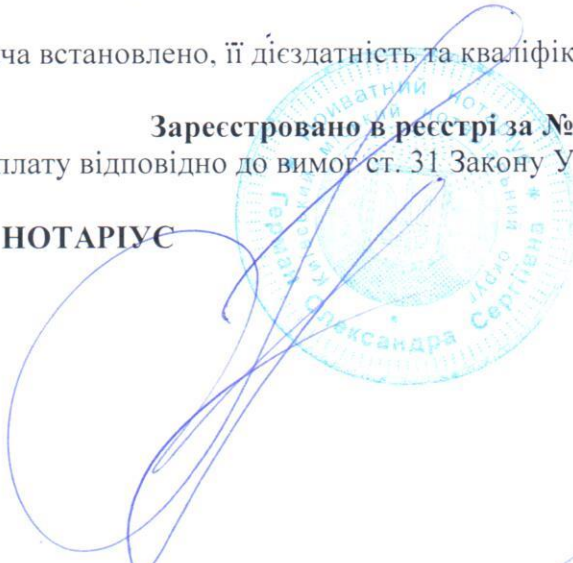
Письмовий переклад тексту документа з української мови на англійську мову зроблено перекладачем Макаренко Анною Миколаївною, справжність підпису якої засвідчую.

Особу перекладача встановлено, її дієздатність та кваліфікацію перевірено.

Зареєстровано в реєстрі за №№ 15038, 15039.

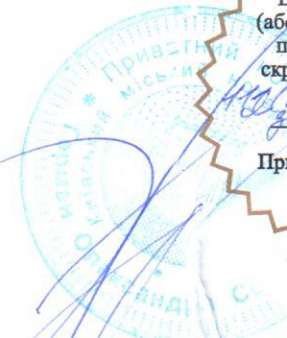
Стягнуто плату відповідно до вимог ст. 31 Закону України „Про нотаріат”.

ПРИВАТНИЙ НОТАРІУС









Всього прошито
(або прошнуровано),
пронумеровано і
скріплено печаткою
15038, 15039
аркушів
Приватний нотаріус