

**PJSC “BANK CREDIT DNEPR”**  
**Financial statements**

*As at and for the year ended December 31, 2016*  
*Together with Independent Auditor's Report*  
*Translation from Ukrainian original*

*Translation from Ukrainian original*

## CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES  
INDEPENDENT AUDITOR'S REPORT

## FINANCIAL STATEMENTS

|   |   |
|---|---|
| Statement of financial position .....                           | 1 |
| Statement of profit or loss and other comprehensive income..... | 2 |
| Statement of changes in equity .....                            | 4 |
| Statement of cash flows .....                                   | 5 |

## NOTES TO THE FINANCIAL STATEMENTS

|  |    |
|--|----|
| 1  |    |
| STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME.....          | 2  |
| STATEMENT OF CHANGES IN EQUITY .....                                     | 4  |
| STATEMENT OF CASH FLOWS (direct method) .....                            | 5  |
| 1. General information .....   | 6  |
| 2. Operating environment.....  | 6  |
| 3. Basis of preparation .....  | 7  |
| 4. Summary of accounting policies.....                                   | 9  |
| 5. Significant accounting judgments and estimates.....                   | 22 |
| 6. Cash and cash equivalents.....  | 25 |
| 7. Amounts due from banks .....  | 25 |
| 8. Loans and advances to customers .....                                 | 26 |
| 9. Securities available-for-sale .....                                   | 30 |
| 10. Investment property .....  | 30 |
| 11. Other financial and non-financial assets .....                       | 31 |
| 12. Property, equipment and intangible assets .....                      | 32 |
| 13. Deferred income tax assets.....                                      | 33 |
| 14. Non-current assets held-for-sale.....                                | 35 |
| 16. Amounts due to customers .....                                       | 36 |
| 17. Debt securities issued .....   | 36 |
| 18. Subordinated debt .....  | 36 |
| 19. Other financial and non-financial liabilities.....                   | 37 |
| 20. Equity .....   | 37 |
| 21. Commitments and contingencies .....                                  | 38 |
| 22. Interest income and expenses .....                                   | 39 |
| 23. Net fee and commission income .....                                  | 40 |
| 24. Other income .....   | 40 |
| 25. Administrative and other operating expenses .....                    | 40 |
| 26. The basic and diluted profit/ (loss) per share .....                 | 41 |
| 27. Financial risk management policies.....                              | 41 |
| 28. Related party disclosures .....                                      | 50 |
| 29. Segment reporting .....  | 53 |
| 30. Derivative financial instruments .....                               | 55 |
| 31. Fair value measurement.....  | 56 |
| 32. Presentation of financial instruments by assessment categories ..... | 58 |
| 33. Capital management.....  | 59 |
| 34. Events after the reporting date .....                                | 60 |

*Translation from Ukrainian original*

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES  
FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

The following statement, which should be considered together with the description of independent auditor's responsibilities contained in the attached Independent auditor's report, is made with a view to distinguishing the respective responsibilities of management and the independent auditor's one with respect to financial statements of Public Joint-Stock Company "Bank Credit Dnepr" (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2016, the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Using reasonable assumptions and estimates;
- Complying with requirements of IFRS and explaining all significant departures from IFRS in the financial statements;
- Preparing the financial statements on a going concern basis except is inappropriate.

Management is also responsible for:

- Designing, implementing, and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The Financial statements for the year ended December 31, 2016 was authorized for issue and signed by and on behalf of the Supervisory board:

Chairman of the Management Board

Olena Malynska

Financial Director

Sergiy Volkov

Chief Accountant

Ruslan Chudakivskyy

June 23, 2017

TRANSLATED FROM UKRAINIAN ORIGINAL

## **INDEPENDENT AUDITORS REPORT**

### **To shareholders and the Board of PUBLIC JOINT STOCK COMPANY "BANK CREDIT DNEPR"**

#### **Opinion**

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

- Statement of financial position as at 31 December 2016;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, Statement of cash flows (direct method) for the year then ended; and
- Description of significant accounting policies and other notes to the financial statements.

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

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Material Uncertainty Related to Going Concern**

These financial statements are prepared based on an assumption that the Bank is able to continue as a going concern. This assumption is based on the events after the reporting period (Note 34 to the financial statements) relating to measures undertaken by the shareholders of the Bank, aimed to fulfil the Restructuring plan and an increase in authorized capital of the Bank, in particular, placement of guarantee deposits and resolution on an increase in an authorized capital. Without modifying our opinion in respect of this matter, we draw attention to Note 2 "Operating environment", which states the factors, which brought about comprehensive loss, negative cash flow from operating activities, failure to comply with certain banking regulations (as stated in Note 5 and 33) and can influence an operating activities of the Bank and its ability to continue as a going concern in the future without proper support of shareholders of the Bank. An assessment of the Bank's management regarding these issues is also disclosed in the Note 5 to these financial statements. The financial statements do not have the adjustments, necessary for resolution of this uncertainty.

## Other matters

The audit of the financial statements of the Bank for the year ended on 31 December 2015 has been conducted by an auditor, whose report dated 28 April 2016 has been modified and emphasis of matter paragraphs on political and economic conditions of operating activities, factors, which caused , failure to comply with certain banking regulations, and going concern assumption assessment, made by the Management of the Bank.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Managing Partner

Auditor

Banking audit license #0171 issued by the Audit Chamber of Ukraine on 22.12.2011.

23 June 2017

Kyiv, Ukraine

Registration # 17-118



Alexander Pochkun

Gagik Nersesyan

*Translation from Ukrainian original***STATEMENT OF FINANCIAL POSITION****As at December 31***(Thousands of Ukrainian hryvnias)*

|   | <i>Notes</i> | <i>2016</i>      | <i>2015<br/>(restated)</i> |
|---|--------------|------------------|----------------------------|
| <b>Assets</b>                               |              |                  |                            |
| Cash and cash equivalents                   | 6            | 786,849          | 403,027                    |
| Amounts due from banks                      | 7            | 141,951          | 142,252                    |
| Loans and advances to customers             | 8            | 4,001,636        | 4,654,314                  |
| Securities available-for-sale               | 9            | 441              | 441                        |
| Deposit certificates of the NBU to maturity |              | 1,000,656        | 520,456                    |
| Investment property                         | 10           | 1,276,502        | 319,597                    |
| Current income tax assets                   |              | 5,554            | 5,456                      |
| Other financial assets                      | 11           | 36,630           | 734,409                    |
| Other assets                                | 11           | 27,958           | 9,115                      |
| Property, equipment and intangible assets   | 12           | 215,157          | 158,258                    |
| Deferred income tax assets                  | 13           | 262,885          | 145,159                    |
| Non-current assets held-for-sale            | 14           | 114,979          | 471,316                    |
| <b>Total assets</b>                         |              | <b>7,871,198</b> | <b>7,563,800</b>           |
| <b>Liabilities</b>                          |              |                  |                            |
| Amounts due to banks                        | 15           | 45               | 357,040                    |
| Amounts due to customers                    | 16           | 7,442,286        | 6,283,673                  |
| Debt securities issued                      | 17           | 136,354          | 150,560                    |
| Subordinated debt                           | 18           | -                | 672,418                    |
| Other financial liabilities                 | 19           | 62,786           | 12,576                     |
| Other liabilities                           | 19           | 40,838           | 29,300                     |
| <b>Total liabilities</b>                    |              | <b>7,682,309</b> | <b>7,505,567</b>           |
| <b>Equity</b>                               | 20           |                  |                            |
| Share capital                               |              | 1,544,666        | 858,666                    |
| Additional paid-in capital                  |              | 17,678           | 17,678                     |
| Accumulated loss                            |              | (1,471,148)      | (914,558)                  |
| Revaluation reserve                         |              | 97,693           | 96,447                     |
| <b>Total equity</b>                         |              | <b>188,889</b>   | <b>58,233</b>              |
| <b>Total equity and liabilities</b>         |              | <b>7,871,198</b> | <b>7,563,800</b>           |

Authorized for release and signed

June 23, 2017

Chairman of the Management Board

Olena Malynska

Financial Director

Sergiy Volkov

Chief Accountant

Ruslan Chudakivskyy

*Translation from Ukrainian original***STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****For the year ended December 31***(Thousands of Ukrainian hryvnias)*

|  | <i>Notes</i> | <i>2016</i>      | <i>2015<br/>(restated)</i> |
|--|--------------|------------------|----------------------------|
| <b>Interest income</b>   | 22           | <b>543,731</b>   | <b>1,033,610</b>           |
| Loans to customers   |              | 501,015          | 1,022,792                  |
| Securities   |              | 40,305           | 6,508                      |
| Amounts due from banks   |              | 2,411            | 4,310                      |
| <b>Interest expenses</b>   | 22           | <b>(757,146)</b> | <b>(839,266)</b>           |
| Amounts due to customers   |              | (698,649)        | (709,912)                  |
| Amounts due to banks   |              | (44,921)         | (98,682)                   |
| Debt securities issued   |              | (13,511)         | (3,062)                    |
| Subordinated debt  |              | (65)             | (27,610)                   |
| <b>Net interest income</b>   |              | <b>(213,415)</b> | <b>194,344</b>             |
| Recovery of / (Charge to) provision for impairment of loans and advances to customers and amounts due from banks | 7,8          | (646,198)        | 25,504                     |
| <b>Net interest income / (expenses) after impairment of interest earning assets</b>                              |              | <b>(859,613)</b> | <b>219,848</b>             |
| Fee and commission income  |              | 149,447          | 190,522                    |
| Fee and commission expenses  |              | (58,477)         | (36,153)                   |
| <b>Net fee and commission income</b>   | 23           | <b>90,970</b>    | <b>154,369</b>             |
| Result from operations with securities in the trading portfolio  |              | 1,531            | -                          |
| Result from operation with derivative  |              | 119,844          | 172,794                    |
| Net gains from dealing in foreign currencies   |              | 79,278           | 37,851                     |
| Foreign exchange translation result  |              | (29,298)         | (83,365)                   |
| Gains less losses from securities available-for sale   |              | -                | 13,429                     |
| Gains less losses on revaluation of investment property  | 10           | 356,107          | 63,509                     |
| Other income   |              | 13,358           | 12,001                     |
| <b>Non-interest income</b>   |              | <b>631,790</b>   | <b>370,588</b>             |
| Charge to provision for impairment of other financial and non-financial assets                                   | 11           | (27,742)         | (17,674)                   |
| Charge to provision for impairment of credit related commitments   | 19,21        | 872              | (825)                      |
| Administrative and other operating expenses  | 24           | (419,624)        | (342,773)                  |
| <b>Non-interest expenses</b>   |              | <b>(446,494)</b> | <b>(361,272)</b>           |
| <b>Profit/ (Loss) before income tax expense</b>  |              | <b>(674,317)</b> | <b>229,164</b>             |
| Income tax benefit   | 13           | 117,727          | 79,901                     |
| <b>Net profit/ (Loss) for the year</b>   |              | <b>(556,590)</b> | <b>309,065</b>             |

Translation from Ukrainian original

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the year ended December 31

(Thousands of Ukrainian hryvnias)

|  | <i>Notes</i> | <i>2016</i>      | <i>2015<br/>(restated)</i> |
|--|--------------|------------------|----------------------------|
| Other comprehensive income that will be transferred to profit and loss |              |                  |                            |
| Unrealized income from securities available-for-sale                   |              | -                | 955                        |
| Property, equipment revaluation  |              | 1,246            | -                          |
| <b>Other comprehensive income after tax for the year</b>               |              | <b>1,246</b>     | <b>955</b>                 |
| <b>Total comprehensive income/ (loss) for the year</b>                 |              | <b>(555,344)</b> | <b>310,020</b>             |
| <b>Profit/ (Loss) per share</b>  |              |                  |                            |
| Net basic profit / (loss)  |              |                  |                            |
| (expressed in UAH per share)   | 26           | (0.45)           | 0.44                       |

Authorized for release and signed

June 23, 2017

Chairman of the Management Board

Olena Malynska

Financial Director

Sergiy Volkov

Chief Accountant

Ruslan Chudakivskyi

Translation from Ukrainian original

## STATEMENT OF CHANGES IN EQUITY

For the year ended December 31

(Thousands of Ukrainian hryvnias)

|   | <i>Share capital</i> | <i>Additional<br/>paid-in<br/>capital</i> | <i>Revaluation<br/>reserve</i> | <i>Retained<br/>earnings/<br/>(Accumulated<br/>loss)</i> | <i>Total<br/>equity</i> |
|---|----------------------|---|--------------------------------|--|-------------------------|
| <b>31 December 2014</b>                         | <b>608,666</b>       | <b>17,678</b>                             | <b>95,492</b>                  | <b>(1,223,623)</b>                                       | <b>(501,787)</b>        |
| Profit for the year                             | -                    | -   | -                              | 309,065  | 309,065                 |
| Other comprehensive income                      | -                    | -   | 955                            | -  | 955                     |
| Total comprehensive income/(loss) for the year  | -                    | -   | 955                            | 309,065  | 310,020                 |
| Additional issue of shares                      | 250,000              | -   | -                              | -  | 250,000                 |
| <b>31 December 2015<br/>(restated)</b>          | <b>858,666</b>       | <b>17,678</b>                             | <b>96,447</b>                  | <b>(914,558)</b>   | <b>58,233</b>           |
| Loss for the year                               | -                    | -   | -                              | (556,590)  | (556,590)               |
| Other comprehensive income                      | -                    | -   | 1,246                          | -  | 1,246                   |
| Total comprehensive income/ (loss) for the year | -                    | -   | 1,246                          | (556,590)  | (555,344)               |
| Additional issue of shares                      | 686,000              | -   | -                              | -  | 686,000                 |
| <b>31 December 2016</b>                         | <b>1,544,666</b>     | <b>17,678</b>                             | <b>97,693</b>                  | <b>(1,471,148)</b>                                       | <b>188,889</b>          |

Authorized for release and signed

June 23, 2017

Chairman of the Management Board

Olena Malynska

Financial Director

Sergiy Volkov

Chief Accountant

Ruslan Chudakivskyy

Translation from Ukrainian original

**STATEMENT OF CASH FLOWS (direct method)****For the year ended December 31***(Thousands of Ukrainian hryvnias)*

|   | <i>Notes</i> | <b>2016</b>      | <b>2015</b>      |
|---|--------------|------------------|------------------|
| <b>Cash flows from operating activities</b>   |              |                  |                  |
| Interest received   |              | 446,135          | 433,397          |
| Interest paid   |              | (735,289)        | (816,335)        |
| Fee and commission income received  |              | 132,443          | 190,212          |
| Fee and commission expenses paid  |              | (58,442)         | (33,913)         |
| Result from operations with securities in the trading portfolio                                   |              | 1,531            | -                |
| Result from operation with derivative financial instruments                                       |              | 142,984          | 146,356          |
| Income received from trading in foreign currencies  |              | 24,237           | 37,851           |
| Other operating expenses received   |              | 12,734           | 12,001           |
| Administrative and other operating expenses, paid   |              | (394,329)        | (319,818)        |
| <b>Cash flows used in operating activities before changes in operating assets and liabilities</b> |              | <b>(427,996)</b> | <b>(350,249)</b> |
| <i>Net (increase)/decrease in operating assets and liabilities</i>                                |              |                  |                  |
| Amounts due from banks  |              | 23,809           | (57,488)         |
| Loans and advances to customers   |              | 168,920          | 1 048 376        |
| Other financial assets  |              | 742,804          | (942)            |
| Other assets and non-current assets held for sale   |              | 8,064            | (528)            |
| Amounts due to banks  |              | (357,000)        | 238,182          |
| Amounts due to customers  |              | 734,867          | (997,447)        |
| Debt securities issued  |              | (32,226)         | 133,171          |
| Other financial liabilities   |              | 41,604           | 2,320            |
| Other liabilities   |              | 8,096            | (359)            |
| <b>Net cash flows from operating activities</b>   |              | <b>910,942</b>   | <b>15,036</b>    |
| <b>Cash flows from investing activities</b>   |              |                  |                  |
| Purchase of securities available-for-sale   |              | -                | (232,910)        |
| Proceeds from sale and redemption of securities available-for-sale                                |              | -                | 425,022          |
| Purchase of property, equipment and intangible assets   |              | (13,883)         | (14,539)         |
| <b>Net cash from/ (used in) investing activities</b>  |              | <b>(13,883)</b>  | <b>177,573</b>   |
| <b>Cash flows from financing activities</b>   |              |                  |                  |
| Additional issue of shares  |              | 686,000          | 250,000          |
| Repayment of subordinated debt  |              | (724,437)        | (177,995)        |
| <b>Net cash from/ (used in) financing activities</b>  |              | <b>(38,437)</b>  | <b>72,005</b>    |
| Effect of exchange rates changes on cash and cash equivalents                                     |              | 5,200            | 39,121           |
| <b>Net increase/ (decrease) in cash and cash equivalents</b>                                      |              | <b>863,822</b>   | <b>303,735</b>   |
| <b>Cash and cash equivalents at the beginning of the year</b>                                     | 6            | <b>923,027</b>   | <b>619,292</b>   |
| <b>Cash and cash equivalents at the end of the year</b>   | 6            | <b>1,786,849</b> | <b>923,027</b>   |

Authorized for release and signed

June 23, 2017

Chairman of the Management Board

Olena Malynska

Financial Director

Sergiy Volkov

Chief Accountant

Ruslan Chudakivskyy

## 1. General information

**Public Joint Stock Company "BANK CREDIT DNEPR"** (the "Bank") was established on July 7, 1993 according to the decision of the General Meeting of Shareholders of the Bank and in accordance with the laws of Ukraine. The change in the legal name and organizational form of the Bank from a closed joint-stock company to a public joint-stock company was officially registered on July 16, 2009. The Bank operates under the general banking license No 70 renewed by the National bank of Ukraine ("NBU") on October 13, 2011, which allows the Bank to conduct banking operations, including foreign currency transactions. The Bank also has licenses for securities operations and custody services from the National Commission for Securities and Stock Market of Ukraine, which were renewed on October 17, 2012 for an unlimited period.

The Bank accepts deposits from individuals and grants loans, transfers payments across Ukraine and abroad, exchanges foreign currencies and provides banking services to its corporate customers and individuals. The Bank also develops programs to support small and medium businesses, expanding the list of services for business customers who conduct foreign economic activity.

Legal address of the Bank and its head office location is 3 Mechnikova st., Pecherskiy distr., Kyiv, Ukraine 01601. Country of residence is Ukraine.

As at December 31, 2016, the Bank has 42 outlets all over Ukraine (2015: 52 outlets).

As at December 31, 2016 and 2015 100% of the Bank's shares were owned by Brancroft Enterprises Limited (the "Shareholder"), a company incorporated in a non-OECD country. In 2015, the Bank has adapted the ownership structure in accordance with the new requirements of the National Bank of Ukraine "On providing information on the ownership structure", which became effective on May 21, 2015. Upon receiving the approval from the NBU, 100% indirect participation in the bank transferred to the company Paramigiani Management Limited, 99% of which directly and 1% indirectly are owned by Mr. Viktor Pinchuk. As at December 31, 2016, the owner of 100% indirect significant holding in the Bank is Mr. Viktor Pinchuk.

These financial statements were authorized for issue and signed by and on behalf of the Supervisory board on June 23, 2017.

## 2. Operating environment

The Bank performs its activities in Ukraine. Despite the fact that the Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, relatively high inflation and significant balance deficit of state finance and external trade.

Continued military conflict in Donbass, the sharp devaluation of the hryvnia and accelerated inflation were the main factors that caused the economic decline in 2015. From the second half of 2015 the situation began to stabilize. As a result of cooperation with the International Monetary Fund (IMF) and other foreign creditors, Ukraine managed to increase foreign exchange reserves and to restructure the public debt, resulting in a sovereign credit ratings increased to pre-crisis levels. In 2015, reforms started in Ukraine that were the main condition of cooperation with the IMF.

During 2016, despite the political crisis and instability in the currency market at the beginning of the year, the economic situation improved. In the first quarter, after two years of recession, the economy returned to growth, in the second quarter the positive trend remained. Inflation slowed against relative stability in the foreign exchange market. Considering all these factors, the National Bank of Ukraine began a gradual easing of monetary policy, in particular: reduced the discount rate and partially liberalized the foreign exchange market. Another positive aspect is the resumption of cooperation with the IMF in September 2016. It should be noted that the economic recovery is slower than expected despite the positive trends. This is mainly due to too slow reform and the ongoing conflict in Donbas. Capacity of Ukrainian banks and companies to attract funding in international credit and equity markets is significantly limited.

As of December 31, 2016, the Bank had loans and advances to customers associated with the Autonomous Republic of Crimea, in the amount of UAH 195,720 thousand. The above amount includes loans secured by assets located in the territory of the Crimea and loans issued to the borrowers in these areas.

As of December 31, 2016 the Bank had loans and advances to customers associated with the territories not controlled by the government of Ukraine in Donetsk and Lugansk regions, amounting to UAH 1,008,016 thousand.

The Bank considered known and measurable risk factors as of the date of these financial statements in assessing the impairment of such loans.

In case of further deterioration of relations between Ukraine and the Russian Federation The Bank may suffer losses due to the difficulties in recovering assets located in the Autonomous Republic of Crimea and territories uncontrolled by the government of Ukraine in Donetsk and Luhansk regions or due to non-payment of indebtedness on loans from borrowers registered in the Autonomous Republic of Crimea and the uncontrolled territories. The negative effect of such events on the financial position and performance of the Bank cannot be currently determined.

In 2016, political and economic relations of Ukraine and Russian Federation remain strained. As at December 31, 2016, certain loans were provided to the Bank's borrowers – producers with exports sales including to the Russian Federation. The Bank considered known and measurable risk factors as of the date of these financial statements in assessing the impairment of such loans. Further deterioration of the political and economic relations between Ukraine and the Russian Federation, establishing restrictions on exports of Ukrainian companies to Russian Federation, can significantly affect the ability of such borrowers to service their loans. The negative effects of such events on the financial position and performance of the Bank cannot be currently determined.

Stabilization of the Ukrainian economy in the near future will depend on the success of actions taken by the government, and continuous financial support to Ukraine by international donors and international financial institutions, as well as the ability of the Ukrainian economy as a whole to respond adequately to the market changes.

Management believes that it takes adequate measures to maintain the stable activity of the Bank required under the circumstances, although further instability in the business environment may cause a negative impact on results of operations and financial condition, the nature and consequences of which currently can not be determined. These financial statements reflect management's current assessment regarding the impact business environment in Ukraine operations and financial condition of the Bank. The future business environment may differ from management's estimates.

Bank's development strategy includes the following objectives: increase the volume of lending to households, small and medium businesses with a particular focus on the agribusiness sector; increase of trade and commission revenue; improving the quality of Internet banking and further development of online technologies.

### **3. Basis of preparation**

#### **Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards.

#### **Basis of preparation**

The financial statements are prepared under the historical cost convention except for buildings and investment property stated at revalued amount, available-for-sale securities and derivative financial instruments stated at fair value, as well as assets held-for-sale stated at the lower of cost and fair value less cost to sell.

Statement of financial position, Statement of profit and loss and other comprehensive income and Statement of changes in equity are prepared in accordance with IAS 1, Presentation of Financial Statements, Statement of cash flows - according to IAS 7, Statement of Cash Flows. The entire financial statements are prepared under the accrual basis, except for cash flows information.

In the statement of financial position, the Bank presents items in order of decreasing liquidity, and maturity analysis of assets and liabilities (current/non-current) disclosed in Note 27.

In the statement of profit and loss and other comprehensive income, nature of items is classified, certain income and expenses items for a group of similar transactions are presented on a net basis, except for those that are material.

The statement of cash flows was prepared under the direct method.

Information in notes to the financial statements was disclosed in accordance with the requirements of IAS 1, Presentation of Financial Statements, IFRS 7, Financial Instruments: Disclosures and other standards when such disclosure is required by relevant standards.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The Bank's accounting policies are consistent with those used by the Bank in the previous financial year (except for the classification of FX swap transactions), and based on the following standards: during the recognition and measurement of financial assets and liabilities the Bank applied IAS 39, Financial Instruments: Recognition and Measurement; fixed assets and intangible assets - according to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets; IAS 40, Investment Property, IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, and other IAS and IFRS. Other significant accounting policies and judgments made during their use are disclosed in Note 4.

### Going concern

These financial statements have been prepared on the assumption that the Bank operates as a going concern and will remain active for the foreseeable future. Note 5 discloses the main factors considered by the management when assessing the Bank's ability to continue its activities.

### Functional and presentation currency

The national currency of Ukraine is Ukrainian hryvnia ("UAH"). The presentation currency for these financial statements is Ukrainian hryvnia, which is also the Bank's functional currency. These financial statements are presented in thousands of Ukrainian hryvnias ("the thousands of UAH") unless otherwise is indicated.

### Inflation accounting

The Ukrainian economy was considered hyperinflationary until December 31, 2000. As such, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items of the financial statements were restated to the measuring units current at December 31, 2000 by applying the consumer price indices to the historical cost, and that these restated values were used as a basis for accounting in the subsequent accounting periods.

### Changes in the format of financial statements and comparative information

During the preparation of the financial statements, comparative data were adjusted to bring them in line with changes in a format of the financial statements for the current year.

The accounting approach to disclosure of transactions with foreign currency swaps has been changed and applied to the result of revaluation of current swap contracts as of December 31, 2015, and disclosed in the financial statements as a result of transactions with derivative financial instruments.

The accounting approach to classification of operations with currency swaps by recounting the items of financial statements for previous periods is presented as follows:

The effect on equity (increase / (decrease) of equity):

|                             | <i>As previously<br/>reported as of<br/>December 31, 2015</i> | <i>Adjustment</i> | <i>After adjustment<br/>as of December 31,<br/>2015</i> |
|-----------------------------|---|-------------------|---|
| <b>Assets</b>               |   |                   |   |
| Other financial assets      | 706,021   | 28,388            | 734,409   |
| <b>Liabilities</b>          |   |                   |   |
| Other financial liabilities | 10,626  | 1,950             | 12,576  |
| <b>Share capital</b>        |   |                   |   |
| Accumulated loss            | (940,996)   | 26,438            | (914,558)   |

The effect on profit and loss and other comprehensive income:

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

|   | <i>As previously<br/>reported as of<br/>December 31, 2015</i> | <i>Adjustment</i> | <i>After adjustment<br/>as of December 31,<br/>2015</i> |
|---|---|-------------------|---|
| Result from operation with derivative financial instruments | -   | 172,794           | 172,794   |
| Net gains from dealing in foreign currencies                | 184,207   | (146,356)         | 37,851  |
| <b>The net effect on profit for the year</b>                | <b>282,627</b>  | <b>26,438</b>     | <b>309,065</b>  |
| <b>Total comprehensive income for the year</b>              | <b>283,582</b>  | <b>26,438</b>     | <b>310,020</b>  |
| <b>Profit per share</b>                                     |   |                   |   |
| basic profit per share (expressed in UAH)                   | 0.41  | 0.03              | 0.44  |

The changes did not affect the Bank's cash flows from operating, investing and financing activities.

#### 4. Summary of accounting policies

##### Changes in accounting policies

The following new standards and interpretations became effective and mandatory for the use by the Bank beginning from January 1, 2016 or after. The Bank do not use in advance standards clarifications or amendments that have been issued but not effective yet.

The nature of the impact of these changes is below. While some standards and amendments applied for the first time in 2016, they had no material impact on the annual financial statements. The nature and impact of every new standard or amendment are disclosed below:

IFRS 14 Deferral accounts of tariff regulation. Since the Bank is already preparing IFRS statements and the Bank's activities are not subject to tariff regulation, this standard does not apply to these financial statements.

Adjustment to IFRS 11 Joint arrangement - Accounting for acquisitions of shares in Joint Operations. Adjustments do not affect the financial statements of the Bank.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - "Explanation of permissible methods of depreciation and amortization." The amendments explain that using income-based methods for calculating asset depreciation is inappropriate because incomes received from activity that involves the use of the asset reflects primarily other factors, but not receipt of economic benefits from that asset. The amendments are applied prospectively without affecting the financial statements as the Bank uses other methods of asset depreciation (Note 12).

Adjustments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - "Agriculture: Fruit Growing Plants." The adjustments are applied retrospectively and do not affect the financial statements of the Bank, as the Bank does not have fruiting plants.

Adjustments to IAS 27 "Separate Financial Statements" - "Applying the method of equity participation in separate financial statements". The adjustments allow organizations to apply the equity method to account for investments in subsidiaries, joint ventures and associates in separate financial statements. Organizations, which apply the IFRS and decide to switch to the equity method in their separate financial statements should apply these changes retrospectively. The adjustments did not affect the Bank's financial statements.

"Annual Improvements to IFRS, period 2012-2014". This document includes the following adjustments to four standards:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Changing the way of disposal (reclassification from assets held for sale, to assets held for distribution, or vice versa) is not a change in the sales or distribution plan and does not need to be reflected in the accounting as a change to that plan. The adjustment is applied prospectively.

IFRS 7 "Financial Instruments: Disclosures":

(a) *Service Agreements*. The adjustment clarifies that a maintenance contract that provides for the payment of remuneration may be a continuation of participation in a financial asset. To determine the need for disclosure, an organization should assess the nature of the remuneration and contract in accordance with the requirements for continued participation in accordance with IFRS 7. The assessment is carried out retrospectively. But disclosure is not required for periods beginning before the reporting period in which the organization first applies the amendment.

*(b) Applying amendments to IFRS 7 in the condensed interim financial statements.* The amendment explains that the disclosure requirements for offsetting are not applied to the condensed interim financial statements, unless such information represents significant volumes of updates in the latest annual report. This adjustment applies retrospectively.

**IAS 19 Employee Benefits.** The adjustment states that, in accounting for pension obligations, decisions on the discount rate, the presence of a developed market ("deep market") of high-quality corporate bonds or on which government bonds should be used as a benchmark, should be based on the currency in which they are nominated Obligation, and not in the currency of the country in which they arose. The adjustment is applied prospectively.

**IAS 34 Interim Financial Reporting.** The amendment explains the disclosure in interim financial statements, with cross-reference references in the interim financial statements. Other information in interim financial report should be available to users under the same requirements and at the same time interim financial statements. This adjustment applies retrospectively.

The amendments do not affect the Bank's financial statements.

Adjustments to IAS 1 "Presentation of Financial Statements" - "Disclosure Initiative". Amendments to IAS 1, explain the following existing requirements: requirements for the substantiality of IAS 1; certain items in the statement of income and other comprehensive income and in the statement of financial position may be disaggregated; the organization may choose the procedure for submitting notes to the financial statements; the share of other comprehensive income of associates and joint ventures accounted for using the equity method is to be disclosed in aggregate within the same article and classified as items that will or will not be reclassified subsequently into profit or loss. In addition, the new manual on interim totals in the financial statements is included, in particular, it is indicated that such interim totals (a) should include articles recognized and evaluated in accordance with IFRS; (b) be presented and named in such a way as to provide an understanding of the components of the interim total amounts; (c) should be applied consistently in different periods; And (d) can not be presented in such a way as allocated more than the interim totals and totals required by IFRS. These adjustments do not affect the Bank's financial statements.

**Adjustments to IFRS 10, "Consolidated Financial Statements", IFRS 12 "Disclosure of information on disclosure of interest in other entities" and IAS 28 "Investments in Associates and Joint Ventures" - "Investment Organizations: Exemptions from Consolidation Requirements".** The adjustments are applied retrospectively and have no impact on the Bank's financial statements as the Bank does not present consolidated financial statements.

### Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to hryvnias at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognized in Net gains/(losses) from foreign currencies in the profit or loss. Non-monetary assets and liabilities denominated in foreign currencies are translated to hryvnias at the foreign exchange rate prevailing at the date of the transaction.

The principal UAH exchange rates used in the preparation of these financial statements as at 31 December are as follows:

| Currency      | 2016      | 2015      |
|---------------|-----------|-----------|
| US Dollar     | 27.190858 | 24.000667 |
| Euro          | 28.422604 | 26.223129 |
| Russian Ruble | 0.45113   | 0.32931   |

### Financial instruments

*A financial asset or financial liability at fair value through profit or loss* is a financial asset or financial liability held for the purpose of repurchase or disposal in the near future, derivatives and instruments, intended for that category after initial recognition.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the management intends to sell immediately or in the near term, those that the management upon initial recognition designates as at fair value through profit or loss, As well as assets designated as available for sale

*Securities available-for-sale* are non-derivative securities designated as available for sale or are not classified as loans and receivables, held-to-maturity assets or financial instruments at fair value through profit or loss.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

*Financial assets held-to-maturity* are non-derivative financial assets with fixed payments and fixed maturity, which are held to maturity.

*Financial liability* is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavorable.

#### *Recognition*

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party in a contract on purchase of a financial instrument. All regular purchases and sales of financial assets/liabilities are accounted as of the settlement date.

#### *Measurement*

A financial asset or liability is initially measured at its fair value and, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of such financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without deduction for any transaction costs that may be on their sale or other disposal, except for:

- loans and receivables that are measured at amortized cost using the effective interest method;
- investments into the equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less impairment losses.

All financial liabilities other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

The amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is recognized in the statement of profit or loss and other comprehensive income as administrative and other operating expenses. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest income/expense within the statement of profit or loss and other comprehensive income using the effective interest method.

#### *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off and there is an intention to settle on a net basis, or to dispose an asset and settle the liability simultaneously.

During 2016, the Bank did not offset assets and liabilities.

#### *Reclassification of financial assets*

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new carrying cost or amortized cost, as applicable.

### **Cash and cash equivalents**

Cash and cash equivalents are assets which can be convertible to known amounts of cash at short notice and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances on correspondent accounts with the National Bank of Ukraine and all interbank deposits with original repayment period of up to three months. Restricted funds for more than three months after their placement and funds with evidence of impairment are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Fees and cash flows presented in the statement of cash flows, are transfers of cash and cash equivalents by the Bank, including amounts of accrued or placed current accounts of the Bank's counterparties as interest income on a loan or principal amount of debt recovered by debiting the funds from the client's current account, payments on interests or granted loans, credited to the current account of the client, representing cash and cash equivalents in client opinion.

### **Amounts due from banks, loans and advances to customers**

"Amounts due from banks" and "loans and advances to customers" are non-derivative financial assets with fixed or determinable payments, which do not have quotes in an active market. The Bank recognizes amounts due from banks along with loans and advances to customers at the date of settlement at fair value, taking into account transaction costs. After initial recognition these assets are measured at amortized cost using the effective interest rate net of impairment losses. Depreciation is disclosed in the income statement under the item "Interest income", and the depreciation expense is "Recovery of / (Charge to) to provision for impairment of loans and advances to customers and amounts due from banks."

### **Borrowings**

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to banks, amounts due to customers, debt securities issued and subordinated debt. Borrowings are initially recognized at fair value. Any gains or losses on initial recognition of loans received from the Shareholder are recognized as additional paid-in capital in equity (upon repayment of these loans the said additional paid-in capital is transferred to the accumulated deficit). After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the borrowings are derecognized as well as through the amortization process.

### **Fair value measurement principles**

The fair value of financial instruments is based on their market quotations at the reporting date without deduction for transaction costs. If market quotations are not available as at the reporting date, the fair value of an instrument is estimated using appropriate valuation models. The models may contain modeling based on net present value, comparison with similar instruments for which prices exist on the observable market, options pricing models and other valuation methods.

At discounted cash flow method, estimated future cash flows are based on the management's best estimates using a discount rate representing a market rate at the reporting date for an instrument with similar terms and conditions. At use of pricing models, inputs are based on market related measures at the reporting date. If there are no appropriate methods to determine the fair value of the equity instruments for which a quoted market price is not available, these instruments are carried at historical cost less the impairment allowance.

In addition, during the preparation of the financial statements fair value measurements are classified by levels based on observable data and their materiality for the assessment:

- I Level inputs: quotations (unadjusted) on active markets on identical assets or liabilities;

- II Level inputs: observable data for an asset or liability, directly or indirectly;
- III Level inputs: non-observable inputs for an asset or liability.

**Gains and losses on subsequent measurement**

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on the financial instrument at fair value with recognition of revaluation in profit or loss is recognized in profit or loss on such items as the result of transactions in securities in the trading portfolio, from derivative instruments with foreign currency. Interest income or expense is recognized using the effective interest rate, and dividend income is recognized under the item "Other income", after establishing the right to receive payment.
- a gain or loss from securities available-for-sale is recognized directly in other comprehensive income (except for interest income, impairment losses and gains and losses from translation differences) until the asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized as other comprehensive income is recognized in profit or loss. Interest in relation to financial asset available-for-sale is recognized as earned in the profit or loss as "Interest income" and is calculated using the method of effective interest rate;
- a gain or loss on financial assets and liabilities carried at amortized cost is recognized in profit or loss in the course of amortization, impairment of the asset or when the financial asset or liability is derecognized. Interest income on impaired financial assets is recognized on the basis of interest rate used to discount future cash flows to assess loss from impairment.

**Derecognition***Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized from the statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

At replacement of an existing financial liability by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, original liability is derecognized and a new liability is recognized, and the difference in the respective carrying amounts is recognized in profit or loss.

**Derivative financial instruments**

Derivative financial instruments include foreign exchange swaps, forward transactions and any combinations of these instruments.

*(Thousands of Ukrainian hryvnias, unless otherwise is indicated)*

*Translation from Ukrainian original*

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in the statement of profit or loss.

### **Impairment of financial assets**

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

#### *Loans to customers*

The management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and individual or collective impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

The Bank assesses individually loans based on the total amount of the Borrower's debt to the Bank, the number of calendar days of outstanding principal and interest, the fact of the restructuring, and if the decision was made of the authorized body of the Bank to classify loans as high risk ones and their appropriate transfer to Non-performing assets Department.

Amount of allowance for impairment of loans to customers is estimated by deduction of discounted value of expected future cash flows excluding future losses not yet incurred and amounts of expected reimbursement from collateral adjusted using weighting discounts that take into account the type of collateral and terms of its disposal from gross exposure of the borrower. The gross exposure of the borrower includes outstanding principal loan amount, accrued interest income as at the date of the statement of financial position, unamortized discount/premium as at the date of the statement of financial position, etc. Discounted value of expected future cash flows from the loan is calculated through discounting the expected future cash flows at the original effective interest rate. Or, where it is impossible to calculate, it is determined by the level of debt under the current conditions of the loan agreement, adjusted by the probability of default and discounted using the original nominal rate. When estimation of the allowance for impairment of loans is based on assessment of expected cash flows from disposal of collateral and/or for calculation of expected reimbursement from collateral adjusted using weighting discounts, the Bank uses the collateral related to any of the following categories only:

- term deposits placed with the Bank;
- residential mortgage;
- non-residential mortgage;
- land plots;
- property complexes;
- cars and other motor vehicles;
- equipment, goods in circulation or processing;
- biological assets.

The Bank applies weighting discounts to fair value of collateral depending on credit rank of the borrower and type of the collateral. Those discounts reflect time and efforts required to dispose of the respective type of collateral.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If in a subsequent year amount of estimated impairment losses increases or decreases due to event occurred after impairment losses have been recognized, amount of previously recognized impairment losses increases or decreases by means of allowance account adjustment. If amount written-off is subsequently recovered, then recovered amount is recognized in the profit or loss as "Reversal/ (Charges to) the provision for impairment of loans and due from other banks". Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, high probability that they will enter bankruptcy or other financial reorganization as well as evidence based on observable data which indicate that there is a measurable decrease in the estimated reimbursement, such as changes in arrears or economic conditions that correlate with defaults.

Factors taken into consideration when assessing whether objective evidence of impairment exists for loans assessed individually may include the following:

- any overdue principal and/or interest amounts;
- indications that the borrower or group of borrowers is in financial difficulties supported by their financial information;
- the borrower's ability to sustain the performance results even if there are financial difficulties;
- evidence that the borrower's or group's industry, geographic region or other relevant economic area is, or may be exposed in the foreseeable future to adverse changes that may result in significant changes in future cash flows;
- evidence of that the borrower may enter bankruptcy or financial reorganization;
- evidence of adverse changes in international, national or local business environment that affects the borrower's cash flows;
- other observable data providing evidence of decrease in the cash flows.

Factors taken into consideration when assessing probability of collection of collectively assessed loans include historical data on default probability and indirect losses taking into account the data on overdue loans in similar portfolios. Credit risk ratios for groups of financial assets with similar characteristics of credit risk are determined in accordance with the internal methodology of probability of default rates calculation that is based on the history of changes in quality of debt servicing by borrowers based on the number of days past due of the debt principal and/or accrued interest income. The amount of allowance for impairment is assessed using other historical data and taking into account the current economic conditions.

In some cases, the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience taking into consideration gained experience in determination of losses from lending activities.

#### *Loan restructuring*

Where possible, the Bank seeks to restructure loans rather than to enforce the collateral as well as for the purpose of time and material costs optimization on the collateral agreement roll-over when prolongation of the loan agreement is executed. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the approach similar to derecognition of financial liabilities.
- If the loan restructuring is caused by the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of future cash flows with regard to new terms discounted using the original effective interest rate and the carrying amount before restructuring in the profit or loss as interest income.

Once the terms have been renegotiated, the loan is no longer considered to be past due. The Bank's management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, and their recoverable amount is calculated using the loan's original effective interest rate.

#### *Financial assets available-for-sale*

The Bank assesses at each reporting date whether there is objective evidence that an financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. At evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss and other comprehensive income – is reclassified from other comprehensive income to the profit or loss. Impairment losses on equity instruments are not reversed through profit and loss in the statement of profit or loss and other comprehensive income; increases in their fair value after impairment are recognized in other comprehensive income.

Impairment of debt instruments classified as available-for-sale is assessed based on the same criteria as financial assets carried at amortized cost. Interest income accrual is based on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in the profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of profit or loss and other comprehensive income, the impairment loss is reversed to income and reflected in the profit or loss.

### **Repurchase and reverse repurchase agreements**

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements (direct "repo") are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties on direct "repo" deal terms are retained in the statement of financial position. Securities borrowed on reverse "repo" deal terms are not recorded in the financial statements, unless these are sold to third parties. The obligation to return them is recorded at fair value as liability on trading operations.

As at 31.12.2016, the Bank did not enter into any repo agreements.

### **Property, equipment, intangible assets and investment property**

Following initial recognition at cost, buildings are carried at a revalued amount, representing fair value at the revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Bank believes that the revaluation model is more relevant to account for the buildings as revalued cost of buildings owned by the Bank reflects more precisely their current value as opposed to historical value.

To determine the fair value of buildings the management obtains appraisals from independent professionally qualified appraisers. Revaluations of buildings are made with sufficient regularity such that carrying amount does not differ materially from that which would be determined using fair value at the revaluation date.

The accumulated depreciation as at the revaluation date is eliminated with simultaneous decrease in gross carrying value of the asset and the net amount is restated based on revalued amount. A revaluation surplus on buildings is recognized in other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognized in the profit or loss. Decrease in buildings value due to revaluation is recognized in the profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the buildings revaluation reserve. On the retirement or disposal of the asset, the remaining buildings revaluation reserve is immediately transferred to the retained earnings.

Other property, plant and equipment and intangible assets are carried at cost less accumulated amortization and impairment losses. The carrying amount of equipment is assessed for impairment in case of events occurrence or changes in circumstances evidencing on probable inability to recover carrying value of the asset. At the end of each reporting date, the Bank assesses whether there is any indication of impairment of equipment and intangible assets. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

in the profit or loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Costs of minor repairs and maintenance are expensed when incurred. Expenditures for capital repairs and cost of replacing major parts or components of property and equipment are capitalized and further depreciated over the useful lives.

Property and equipment used by the Bank either to earn rental income or for capital appreciation or for both are carried as investment property at fair value. Changes in the fair value of investment properties are included in the profit or loss as Gains less losses on revaluation of investment property.

### Depreciation and amortization

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation and amortization commences from the date when the acquired assets becomes ready for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

|                         |          |
|-------------------------|----------|
| Buildings               | 50 years |
| Furniture and equipment | 5 years  |
| Computers               | 3 years  |
| Motor vehicles          | 5 years  |

Costs on capital leasehold improvements are recognized as assets and charged to the profit or loss as "Administrative and other operating expenses" within depreciation of property and equipment and amortization of intangible assets on a straight-line basis over the shorter of the applicable lease or the economic life of the leasehold improvement.

Intangible assets are amortized over the useful lives till 10 years.

### Non-current assets held-for-sale

The Bank classifies a non-current asset (or a disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held-for-sale.

The Bank measures an asset (or disposal group) classified as held-for-sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss as in other charges to allowances for impairment if events or changes in circumstance indicate that carrying amount of the asset (or disposal group) may be impaired.

### Leases

#### *Financial lease – Bank as a lessor*

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Financial income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

#### *Operational lease – Bank as a lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease

*(Thousands of Ukrainian hryvnias, unless otherwise is indicated)*

*Translation from Ukrainian original*

term and included into the profit or loss as "Administrative and other operating expenses" within expenses for operating lease (rent).

#### *Operational lease – Bank as a lessor*

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized on a straight-line basis over the lease term in the profit or loss as "Other income". The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

### **Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

### **Financial guarantees**

In the ordinary course of business, the Bank provides financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in the statement of financial position as "Other liabilities", being the premium received. Commission received is recognized in the profit or loss on a straight-line basis during the financial guarantee agreement term. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Increase in liability relating to financial guarantee agreements is recognized in the profit or loss.

### **Income and expense recognition**

#### *Interest and similar income and expenses*

For all financial instruments measured at amortized cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded carrying value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

#### *Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

#### *Dividend income*

Revenue is recognized when the Bank's right to receive the payment is established.

#### **Share capital**

Ordinary shares are recorded as share capital. Costs of services of third parties directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

The book value of the share capital takes into account the influence of hyperinflation accumulated before 2001.

#### **Taxation**

The income tax for the year comprises current and deferred tax. The income tax is recognized in the profit or loss as Income tax (benefit)/expenses except to the extent that it relates to items of other comprehensive income, or to items of the statement of changes in equity, in which case it is recognized respectively in other comprehensive income or in the statement of changes in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current income tax expenses are calculated in accordance with the legislation of Ukraine.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is calculated depending on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates to be effective in the periods of possible realization of temporary differences between tax and financial accounting.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Ukraine also has various operating taxes that are assessed on the Bank activities. These taxes are included in other operating expenses.

#### **Employee benefits**

There is the State pension system in Ukraine. Under the system rules the Bank and its employees execute obligatory payments calculated based on income received by the employees. The Bank recognizes amounts paid to that system in the statement of profit or loss and other comprehensive income as part of administrative and other operating expenses as personnel costs. The Bank does not have any additional pension schemes and does not provide significant post-retirement benefits to its employees.

#### **Precious metals**

Gold and other precious metals are recorded at the NBU exchange rates, which approximate fair values. Changes in the NBU bid prices are recorded as translation differences on transactions with precious metals in the profit or loss as net gains/(losses) arising from foreign currencies.

#### **Contingent assets and liabilities**

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless retirement due to their redemption is unlikely. A contingent asset is not recognized in the statement of financial position but is disclosed in the financial statements when an inflow of economic benefits is probable.

**Standards and interpretations issued but not year effective**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 and which the Bank has not early adopted.

**IFRS 9 Financial Instruments: Classification and Measurement (released in July 2014 and is effective for annual periods beginning on or after January 1, 2018).** Below are the main features of the new standard:

IFRS 9 combines three parts of the financial instruments accounting framework: classification and measurement, impairment and hedge accounting. Except for hedge accounting, the standard is applied retrospectively, but the disclosure of comparative information is not mandatory. Requirements for hedge accounting are mainly applied prospectively, with some limited exceptions.

The effect from the standard to be applied on the date of transition (January 1, 2018) should be reflected as part of retained earnings. The application of IFRS 9 is expected to affect the classification and measurement of the Bank's financial assets.

The Bank assumes that the application of IFRS 9 to impairment accounting will affect its capital. In order to assess the level of such exposure, a detailed analysis should be carried out, taking into account all reasonable and verified information, including forecast.

(a) IFRS 9 establishes a new approach to the classification of financial assets due to the characteristics of cash flows and the business model of the organization.

- A financial asset is classified for further measurement in the category of instruments measured at amortized cost if: (i) the cash flows provided for by the agreement must represent exclusively the repayment of the principal and interest; (ii) the assets are held within the business model, the purpose of which is to maintain the contractual cash flows;
- A financial asset is classified for further measurement in a category of instruments at fair value through profit or loss if: (i) the cash flows provided for by the agreement must represent exclusively the repayment of the principal and interest; (ii) assets are held within a business model that involves managing assets for the purpose of both obtaining cash flows provided by the agreement and selling these assets;
- Financial assets that do not qualify for further measurement at amortized cost or at fair value through profit or loss, are classified in the category of instruments that are subsequently measured at fair value through profit or loss.
- Financial liabilities are classified for further valuation as those measured at amortized cost, except for financial liabilities for trading (including derivatives) - are measured at fair value with the recognition of a revaluation through profit or loss.

(b) IFRS 9 requires to reflect all 12-month expected loss or expected credit loss for all maturities of all debt securities, loans and receivables to be reflected. The Bank expects that these changes will have a significant impact on equity due to the instability of loans and receivables. But the Bank will perform a more detailed analysis taking into account all reasonable and verified information to determine the extent of the impact.

(c) IFRS 9 provides for a new model of general hedging accounting principles that converges hedging accounting with risk management objectives. The new model does not provide for fundamental changes in the types of hedging relationships or requirements for the assessment and recognition of ineffectiveness of hedging in accordance with IFRS 39, but in the new model, a greater number of hedging strategies used for risk management will meet the criteria for applying hedge accounting.

**IFRS 15 Revenue from Purchase Agreements (issued 28 May 2014 and effective for periods beginning on or after January 1, 2018).** The standard includes a five-step model that will be applied to revenues from contracts with buyers. According to IFRS 15, revenue is recognized in the amount of reimbursement the right to which the organization expects to receive in exchange for the transfer of goods or services to the buyer.

The new revenue standard will replace all existing IFRS requirements before revenue is recognized. The Standard requires full retrospective application or modified retrospective application for annual periods beginning on or after January 1, 2018; It is possible to apply early on this date. The Bank plans to use the full retrospective application of the new standard from the required date of entry into force. In 2016, the Bank conducted a preliminary assessment of the implications of

applying IFRS 15, the results of which can be reviewed on the basis of ongoing, more in-depth analysis. In addition, the Bank takes into account the amendments issued by the IFRS Board in April 2016 and will track future developments.

IFRS 15 contains more detailed disclosure requirements than existing IFRSs. The requirements for filing make significant changes to existing practices and significantly increase the amount of information required to be disclosed in the financial statements of the Bank. Many of the disclosure requirements in IFRS 15 are completely new. The Bank plans to develop and test the relevant systems, internal control procedures, policies and processes needed to collect and disclose the required information in 2017.

IFRS 16 Lease Agreements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard supersedes IAS 17, KTMFZ 4, PKT-15, PKT-27. IFRS 16 sets out the principles for recognizing, assessing, presenting and disclosing lease information, and requires tenants to record all lease agreements using a single accounting model in the balance sheet, similar to the accounting treatment that is provided for in IFRS 17 for finance leases. The standard provides for two exemptions from recognition for tenants - regarding the lease of assets with low value and short-term lease (with a maturity of no more than 12 months). At the beginning of the lease, the lessee will recognize obligations relating to lease payments (lease obligations), as well as an asset representing the right to use the underlying asset during the lease term (asset in the form of the right of use). Even operating lease costs will be replaced by interest expense on liability and even costs of depreciation of the asset, which will reflect higher costs at the beginning of the lease term and lower ones at the end of the lease.

IFRS 16 may be applied in full (i) retrospectively; or (ii) without recalculation of information for the comparative period, with the recognition of the total effect of the initial application of the standard as an adjustment to the input balance of retained earnings at the date of initial application. If option (ii) is applied, the lessee should estimate the obligation based on the rate of attraction of additional borrowed funds, determined on the date of the first application. An asset in the form of a right of use may be measured in the amount equal to the lease obligation or at the carrying amount of the asset, calculated retrospectively using the rate of attraction of additional borrowed funds at the date of initial application of the standard.

During 2017, the Bank will evaluate the possible impact on its financial statements.

**Amendments to IAS 12, Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses (published in January 2016) specify the following aspects:**

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes result in temporary differences, regardless of whether the holder of debt instruments is expected to recover the carrying amount of the debt instrument through sale or use.
- The carrying amount of an asset does not limit the assessment of the probable future taxable profit.
- The estimates of future taxable income do not include tax deductions as a result of reversal of temporary tax differences.
- An entity estimates the deferred tax asset in conjunction with other deferred tax assets. Where tax laws restrict the use of tax losses, an entity will assess the deferred tax asset in conjunction with other deferred tax assets of the same type.

The adjustments apply to annual periods beginning on or after January 1, 2017. At present, the Bank's management assesses the impact of the application of these amendments and standards on future financial statements of the Bank.

**Amendments to IAS 7, Statement of Cash Flows** (released in January 2016 and effective for annual periods beginning on or after 1 January 2017 with earlier application permitted). The amendments are intended to clarify IAS 7, to improve the information provided to users of financial statements on the financial activities of the entity. The purpose of the amendments is to provide such disclosures that would allow users of financial statements to evaluate changes in liabilities arising from financial activities. Such changes must be disclosed to the extent necessary: (I) changes of cash flow from financing; (II) changes related to acquisition or loss of control of subsidiaries and business; (III) the effect of changes in exchange rates; (IV) changes in fair value; and (V) other changes. Such disclosure may be made through the reconciliation of opening and closing balances presented in the statement of financial position arising from financing activities. The Bank is currently assessing the impact of this new standard on its financial statements.

Amendments to IFRS 2 Share-based Payment. The amendments deal with three main aspects: the impact of the transition conditions for the valuation of cash-settled share-based payment transactions; Classification of share-based payment

transactions with the condition of settlement on a net basis for tax liabilities held at the source; accounting for changes in the terms of the share-based payment transaction, whereby the operation ceases to be classified as a cash-settled operation and begins to be classified as a transaction with the calculation of equity instruments.

When adopting amendments, organizations are not required to list information for previous periods, but retrospective application is permitted, subject to the amendment of all three aspects and compliance with other criteria. The amendments are effective for annual periods beginning on or after January 1, 2018. May be applied before this date. At present, the Bank's management assesses the impact of the application of these amendments on future financial statements of the Bank.

Amendments to IFRS 10 and IAS 28, "Sale or Transfer of Assets in Transactions between an Investor and his affiliated entity or joint venture". The amendments consider the contradictions between IFRS 10 and IAS 28, in terms of accounting for loss of control over a subsidiary that is sold to or affiliated with a dependent organization or joint venture. The amendments clarify that the gain or loss arising from the sale or transfer of assets constituting a business, as defined in IFRS 3, in an agreement between an investor and its affiliated entity or joint venture, is recognized in full. However, profits or losses resulting from the sale or donation of non-business assets are recognized only within shares held by others than the organization of investors in a dependent company or joint venture. These amendments are postponed indefinitely. The amendments are expected to have no impact on the Bank's financial statements.

## 5. Significant accounting judgments and estimates

The Bank makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually reviewed and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In addition to statements that involve accounting estimates, management also uses judgment in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

### Going concern assumptions of the Bank.

The factors described in Note 2 to these financial statements continued to affect the financial position and performance of the Bank. According to the results of 2016, the Bank received a net loss of UAH 556,590 thousand, mainly due to the charged provision for loan impairment in the amount of UAH 646 198 thousand. As at December 31, 2016, as indicated in the section "Liquidity risk" in Note 27, the cumulative liquidity difference of the Bank for one year period and the total cumulative liquidity difference were negative values in the amount of UAH 3 357 733 thousand and UAH 1,673,308 thousand, respectively. Excess of short-term obligations of the Bank over short-term assets of the Bank is calculated taking into account the stable part of clients' funds, as obligations with indeterminate actual term of return, amounts to UAH 88,654 thousand.

Management prepared these financial statements in accordance with the going concern principle. In making this judgment, the Management took into account events and circumstances that occurred after the reporting date referred to in Note 34 to these financial statements, in particular the resolution approved by the Shareholder to increase the share capital of the Bank in the amount of UAH 1,199,000 thousand, the placement by the Shareholder of funds to cover arrears on non-performing loans, consistent actions of the Bank's Shareholder on financial support of the Bank, implementation of the Bank's Supervisory Board approved by the NBU Action Plan on elimination of breaches of the Bank's economic ratios during 2016-2018, further stabilization of the political and the economic situation in Ukraine, the cessation of hostilities in Ukraine, the financial condition of the Bank, planned access to financial resources, as well as analysis of impact from the current financial and economic conditions on future operations of the Bank. Following such assumptions, the Bank's management also took into account the following factors and concluded that the assumption of going concern in the preparation of these financial statements is appropriate.

*Capital.* As a result of the events described in Note 2 to the financial statements as of December 31, 2014 the Bank additionally charged the provision for loan impairment in the amount of UAH 1,233,398 thousand, which led to negative equity value at December 31, 2014 in the amount of UAH 501,787 thousand. On February 24, 2015 the Supervisory Board of the Bank approved the Bank's financial recovery program for the years 2015-2017 with the Bank's capitalization program. The program provides for increase of the share capital of the Bank by its Shareholder during the years 2015-2016 in the amount of USD 35,900 thousand by converting of the subordinated debt into the share capital of the Bank. Following the capitalization program and in accordance with the approved schedule the Shareholder of the Bank approved

the resolution to increase the share capital through private placement of additional shares of the existing par value - April 9, 2015 by UAH 250,000 thousand and December 18, 2015 by UAH 686,000 thousand and fully paid the shares.

On April 19, 2016 the Supervisory Board approved the Action Plan on eliminating violations of economic ratios, including Restructuring Plan (hereinafter Action Plan) for the purpose of further support of the capital based on the results of diagnostic study as required by the National Bank's Board dated April 15, 2015 No 260 "On diagnostic testing of banks". The Action Plan was approved by the decision of the Bank's Shareholder and by the resolution of the National Bank of Ukraine. The Restructuring Plan includes capitalization of the Bank in the amount and in terms approved by the respective resolution of the Board of the National Bank of Ukraine. In addition to improvement of the operational result of the Bank due to intensified lending of households, small and medium enterprises implementation of the actions planned in the Restructuring Plan will help the Bank to increase capital adequacy ratio to the level not less than 7% as of January 1, 2018 and not less 10% as of January 1, 2019. The Shareholder of the Bank provided Letter of Guarantee as support of capitalization program of the Action Plan. In the Letter of Guarantee the Shareholder confirms his intentions to secure capitalization of the Bank in case of failure of the Restructuring Plan in the amounts totaling UAH 1,199mln and the terms set by the National bank of Ukraine to satisfy regulatory capital adequacy ratio (H2) and own capital adequacy ratio.

On May 31, 2017 the Shareholder concluded with the Bank the surety agreement, guaranteeing execution of obligations under the credit agreements by troublesome borrowers in the amount of USD 30 million and placed the respective amount in the Bank. This helped to form large loan loss reserves and increase own and regulatory capital respectively. The Surety Agreement with the Bank's Shareholder envisages its early termination, if the placed funds are used to buy the Bank's shares within a capital increase.

On June 21, 2017 the Shareholder took decision about increase of the Bank's capital by private placement of additional shares of the existing nominal value in the amount UAH 1,199,000 thousand. The mentioned capital increase will result in pre-scheduled fulfillment of obligations under the Restructuring Plan by the Bank and Shareholder.

The above factors raised considerable uncertainty, which can put in question the Bank's ability to continue as a going concern. However, sustainable financial support of the Shareholder, execution of his liabilities according to the Letter of Guarantee and the decision on increase of share capital, as mentioned in Note 34, provide sufficient confidence of the management regarding the Bank's ability to continue as a going concern.

*The quality of the loan portfolio.* While evaluating quality of credit operations, the Bank follows the principle of preferring essence of transaction to its form. This principle includes provision of full and adequate evaluation of credit risk for calculation of asset credit risk both on individual and collectively basis taking into consideration its own experience by use of the management's judgement to determine materiality of impact on quality of an asset from any given factors.

As of December 31, 2016 the Bank had loans and advances to customers associated with the territories not controlled by the government of Ukraine in Donetsk and Lugansk regions and in Crimea, in the amount of UAH 1,203,736 thousand (2015: UAH 992,577 thousand). Increase of indebtedness compared to 2015 stemmed from devaluation of Hryvnia to currencies, in which indebtedness of the mentioned customers was denominated. The Bank considered known and measurable risk factors as of the date of these financial statements in assessing the impairment of such loans. In case of further negative developments, the Bank may incur losses due to difficulties in recovering assets located in that territory or nonpayment of debts on loans by companies registered in such territories. Such losses could affect the Bank's ability to continue as a going concern.

Future cash flows, potentially generated by foreclosure of pledged property, are calculated at evaluation of the Bank's assets taking into account available legal possibilities of the Bank to realize its rights as pledge holder, quality of debt servicing by borrower, stage of litigation works and liquidity coefficient of collateral, as well as the bank's experience on terms of disposal for a specific asset class. Any potential or actual limitations in realization of pledge holder rights, which could be considered temporary, but not permanent, are included at evaluation of an asset with allowance made for peculiarities disclosed in the mentioned paragraph and for its own experience of the Bank. If the mentioned limitations become permanent, as the Bank loses the right to foreclose a collateral, they could result in increase of expenses and affect the Bank's ability to continue as a going concern.

*Economic ratios* The complicated operating environment of the Bank, as described in Note 2, together with a significant additional charge of the provision for loan impairment led to the violation of economic ratios set by the National Bank of Ukraine, namely the minimum regulatory capital (H1), regulatory capital adequacy (H2), current liquidity (H5), short-term liquidity (H6), the maximum credit risk per counterparty (H7), large credit risks (H8), the maximum credit risk on transactions with related parties (H9) and the limit of total short open foreign currency position (L13-2). Taking into account the need to create conditions for ensuring the sustainability of Ukrainian banks and the impact of the difficult economic situation and military operations in some regions of Ukraine on the banking sector, the NBU does not apply sanctions to banks for the violation of the aforementioned mandatory ratios according to the Board Resolution No 129

dated February 24, 2015 and the Board Resolution No 314 dated May 12, 2015. In addition to the Action Plan on elimination of breaches of economic ratios, the decision of the Bank's Shareholder approved the Action Plan on bringing the ratio of the maximum credit risk on transactions with affiliated parties to correspondence with regulatory requirements set by the resolution of the National Bank of Ukraine Board. In accordance with the Action Plan on elimination of breaches of economic ratios and the Action Plan on bringing the ratio of maximum credit risk on transactions with affiliated parties the Bank plans to eliminate breaches of economic ratios till January 1, 2019. On June 21, 2017 the Shareholder took decision about increase of the Bank's capital by private placement of additional shares of the existing nominal value in the amount UAH 1,199,000 thousand. The mentioned capital increase will result in pre-scheduled fulfillment of obligations under the Restructuring Plan by the Bank and Shareholder.

The management believes, considering the above factors, that there is sufficient confidence about the Bank's ability to continue as a going concern.

**Impairment losses on loans and advances to customers.** The Bank regularly reviews its loan portfolio to assess impairment. In determining whether to reflect impairment loss in profit or loss, the Bank uses judgments whether there is any observable data indicating a decrease in the estimated future cash flows from the loan portfolio that can be measured before this decrease can be identified with an individual loan in that portfolio. Such evidence may include observable data indicating an adverse change in the solvency of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and reliable evidences of impairment similar to those in the portfolio when estimating its future cash flows.

The methodology and assumptions used for estimating both terms and amounts of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In preparing these financial statements the management has used estimates of future cash flows on loans, taking into account restructuring of assets, as well as restructurings in the process of approval by the customers. Future cash flows on loans also include those that might occur in the event of restructuring of non-performing assets or objective reasons supported by documents. In the case of non-occurrence of the planned restructuring or change of estimates of future cash flows on made restructurings, the estimated amount of the required reserve can be increased.

**Recognition of deferred income tax asset.** The recognized deferred tax asset represents the amount of income tax that can be credited against future income taxes and recognized in the statement of financial position. Deferred income tax assets are only recognized to the extent that it is probable to use the related tax credit. The assessment of future taxable profits and the amount of tax credits the use of which is probable in the future is based on medium term business plan prepared by management and extrapolated results for future periods. The business plan is based on management expectations that are believed to be reasonable under the circumstances. As expected, the Bank will receive a stable income in the future. Key assumptions used in the business plan include expected stabilization of the economy of Ukraine, the gradual decline in interest rates (on loans and funding), moderate growth in the loan portfolio, reducing provisioning for loan impairment due to the expected improvement in the economy and further strengthening of control over costs. Given the planned future returns and that the current Ukrainian tax legislation does not impose term limits on the use of tax losses carried forward, management believes appropriate the recognition of the deferred tax asset. As at December 31, 2016 the Bank recognized deferred income tax in the amount of UAH 262,885 thousand (Note 13).

**Tax legislation.** The tax, currency and customs legislation in Ukraine is subject to varying interpretations (Note 21).

**Recognition of related party transactions.** In the normal course of business, the Bank enters into transactions with related parties. IAS 39 requires to account financial instruments at initial recognition at fair value. In the absence of an active market for such transactions in order to determine if transactions are priced at market or non-market rates, the professional judgment was used. The basis for such judgments is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms of transactions with related parties are disclosed in Note 28.

On May 12, 2015, the NBU approved resolution No 315 on Regulation on the definition of parties related to a bank, which established criteria for recognition of related parties that significantly differed from recognition criteria of related parties under IAS 24. In particular, the related parties under this Regulation are: (1) two legal entities due to the fact that they have a common director or other member of the key management staff or due to the fact that a member of the key management staff has significant influence on the other entity; (2) two persons who are participants in joint ventures just because they exercise joint control over the joint activity; (3) the parties providing financing; (4) a single buyer, supplier and others, with which the company enters into a substantial volume transactions only due to the appearance of economic dependence as a result of these transactions, while under IAS 24 such parties are not related.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

**Fair value of financial instruments.** Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation methods that include the use of mathematical models. The input data to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is otherwise required in establishing fair values. Judgements take into account following input data, as liquidity risk and volatility. Changes in assumptions regarding those factors can influence fair value of financial instruments, presented in financial statements (Note 31).

**Determination of revalued amount of buildings and investment property items.** Buildings are accounted at revalued value equaling to fair value as at valuation date less any subsequent accumulated depreciation and impairment losses. Investment property is accounted at fair value. The Management of the Bank engaged independent appraiser to determine fair value of buildings and investment property as of November 1, 2016. The appraiser used market approach based on analysis of comparable sales of similar buildings and facilities to determine fair value of the mentioned assets. Changes in fair value of buildings are recognized in other comprehensive income, while changes in fair value of investment property are recognized in profit or loss (Notes 10 and 12).

## 6. Cash and cash equivalents

Cash and cash equivalents include:

|  | <b>2016</b>    | <b>2015</b>    |
|--|----------------|----------------|
| Cash on hand                           | 180,938        | 165,033        |
| Current accounts with banks            | 434,726        | 193,112        |
| Current accounts with NBU              | 171,185        | 44,882         |
| <b>Total cash and cash equivalents</b> | <b>786,849</b> | <b>403,027</b> |

As at December 31, 2016 the amount equivalent to UAH 430,708 thousand (2015: UAH 188,872 thousand) was placed on current accounts with four banks from OECD countries (2015: two banks from OECD countries), who are the main counterparties of the Bank in performing international settlements.

Deposit certificates issued by the National Bank of Ukraine, with a maturity of 30 days are included in "Cash and cash equivalents" as they have an insignificant risk of changes in value and are readily convertible to a known amount of cash. As at December 31, 2016 the total amount of cash and cash equivalents for the purposes of the Statement of cash flows excluding accrued interest on deposit certificates of the NBU is UAH 1,786,849 thousand (2015: UAH 923,027 thousand).

## 7. Amounts due from banks

Amounts due from banks include:

|  | <b>2016</b>    | <b>2015</b>    |
|--|----------------|----------------|
| Guarantee deposits with other banks                      | 105,941        | 127,546        |
| Correspondent accounts with other banks                  | 38,003         | 15,651         |
| <b>Amounts due from banks</b>                            | <b>143,944</b> | <b>143,197</b> |
| Less: provision for impairment of amounts due from banks | (1,993)        | (945)          |
| <b>Total amounts due from banks</b>                      | <b>141,951</b> | <b>142,252</b> |

As at December 31, 2016 amounts due from banks include guarantee deposits in the amount of UAH 14,036 thousand (2015: UAH 10,284 thousand), placed with one Ukrainian bank (2015: one) as a collateral under transactions with payment cards of the Bank's customers. The Bank also placed a deposit for UAH 272 thousand (2015: UAH 240 thousand), a collateral for transactions using international money transfer systems.

As at December 31, 2016 amounts due from banks include balances in current accounts with one bank from OECD countries (2015: one bank from OECD countries) in the amount of UAH 91,633 thousand (2015: UAH 83,498 thousand) stand for cover the Bank's commitments as a principal member of international payment systems. As at the reporting date, the deposit is not overdue, has no evidence of impairment. Repayment periods of the deposits, the concentration of currency risks and other risks are disclosed in Note 27.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

As at December 31, 2016 amounts due from banks structured by credit quality included:

|  | <i>2016</i>    | <i>2015</i>    |
|--|----------------|----------------|
| BBB+/BBB-  | 91,657         | 111,595        |
| BB+/BB-  | 37,793         | 17,304         |
| CCC  | 334            | 3,986          |
| No credit rating   | 14,160         | 10,312         |
| <b>Amounts due from banks</b>                            | <b>143,944</b> | <b>143,197</b> |
| Allowance for impairment of amounts due from other banks | (1,993)        | (945)          |
| <b>Total amounts due from banks</b>                      | <b>141,951</b> | <b>142,252</b> |

Credit ratings are based on ratings of Fitch international rating agency, if available, or on ratings of other international rating agencies, transformed to the closest equivalent on Fitch scale.

Changes in allowance on impairment of amounts due from banks are:

|                                    | <i>2016</i>  | <i>2015</i> |
|------------------------------------|--------------|-------------|
| <b>January 1</b>                   | <b>945</b>   | <b>-</b>    |
| Charge to provision for impairment | 506          | 988         |
| Foreign currency translations      | 542          | (43)        |
| <b>December 31</b>                 | <b>1,993</b> | <b>945</b>  |

## 8. Loans and advances to customers

Loans and advances to customers comprised:

|   | <i>2016</i>      | <i>2015</i>      |
|---|------------------|------------------|
| Loans to legal entities   | 5,588,301        | 6,012,793        |
| Loans to individuals  | 557,343          | 448,928          |
| - mortgage  | 68,464           | 60,107           |
| - car   | 72,310           | 63,037           |
| - credit cards  | 149,921          | 77,951           |
| - other   | 266,648          | 247,833          |
| <b>Loans to customers</b>   | <b>6,145,644</b> | <b>6,461,721</b> |
| Less: provision for impairment of loans and advances to customers | (2,144,008)      | (1,807,407)      |
| <b>Total loans to customers</b>                                   | <b>4,001,636</b> | <b>4,654,314</b> |

Loans to individuals classified as "Other" include general purpose loans, which cannot be included into any other category. Mortgage loans represent loans granted for purchase of residential property, which are secured by this property only.

Changes in allowance for impairment of loans to customers for the year ended December 31, 2016 are:

|                                    | <i>Loans to<br/>legal entities</i> | <i>Loans to<br/>individuals</i> | <i>Total</i>     |
|------------------------------------|------------------------------------|---------------------------------|------------------|
| <b>1 January 2016</b>              | <b>1,518,156</b>                   | <b>289,251</b>                  | <b>1,807,407</b> |
| Charge to provision for impairment | 555,854                            | 102,488                         | 658,342          |
| Bad debt write-off                 | (497,544)                          | (9,297)                         | (506,841)        |
| Translation differences            | 179,406                            | 5,694                           | 185,100          |
| <b>31 December 2016</b>            | <b>1,755,872</b>                   | <b>388,136</b>                  | <b>2,144,008</b> |
| Individually assessed impairment   | 1,755,559                          | 386,714                         | 2,142,273        |
| Collectively assessed impairment   | 313                                | 1,422                           | 1,735            |
|                                    | <b>1,755,872</b>                   | <b>388,136</b>                  | <b>2,144,008</b> |

The amount of provision for impairment during 2016 differs from the amount reported in the profit or loss for the period as a result of reimbursement on loans previously written off as uncollectible in the amount of UAH 12,650 thousand (2015: UAH 20,402 thousand), including the reimbursement of UAH 12,598 thousand of corporate loans (2015: UAH 18,441 thousand) and UAH 52 thousand of loans to individuals (2015: UAH 1,961 thousand), as well as the provision for

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

amounts due from banks. The recoverable amount was credited directly to the line Recovery of/ (Charge to) provision for impairment of amounts due from banks in profit or loss for the period.

Changes in allowance for impairment of loans to customers for the year ended December 31, 2015 are:

|   | <i>Loans to<br/>legal entities</i> | <i>Loans to<br/>individuals</i> | <i>Total</i>     |
|---|------------------------------------|---------------------------------|------------------|
| <b>January 1, 2015</b>                            | <b>1,595,530</b>                   | <b>138,451</b>                  | <b>1,733,981</b> |
| Charge to/ (Recovery of) provision for impairment | (128,781)                          | 122,691                         | <b>(6,090)</b>   |
| Bad debt write-off                                | (172,343)                          | (2,361)                         | <b>(174,704)</b> |
| Translation differences                           | 223,750                            | 30,470                          | <b>254,220</b>   |
| <b>December 31, 2015</b>                          | <b>1,518,156</b>                   | <b>289,251</b>                  | <b>1,807,407</b> |
| Individually assessed impairment                  | 1,518,050                          | 288,537                         | <b>1,806,587</b> |
| Collectively assessed impairment                  | 106                                | 714                             | <b>820</b>       |
|   | <b>1,518,156</b>                   | <b>289,251</b>                  | <b>1,807,407</b> |

Analysis by credit quality of loans to customers as at December 31, 2016 is as follows:

|   | <i>Loans and<br/>advances, gross</i> | <i>Impairment</i>  | <i>Loans and advances,<br/>net</i> | <i>Impairment to<br/>gross loans and<br/>advances</i> |
|---|--------------------------------------|--------------------|------------------------------------|---|
| <b>Loans and advances<br/>neither past due nor<br/>impaired</b> | <b>1,726,244</b>                     | -                  | <b>1,726,244</b>                   | <b>0.0%</b>   |
| <b>Loans to legal entities</b>                                  | <b>1,723,530</b>                     | -                  | <b>1,723,530</b>                   | <b>0.0%</b>   |
| <b>Loans to individuals</b>                                     | <b>2,714</b>                         | -                  | <b>2,714</b>                       | <b>0.0%</b>   |
| - mortgage  | 1,536                                | -                  | 1,536                              | 0.0%  |
| - car   | 110                                  | -                  | 110                                | 0.0%  |
| - credit cards  | 1                                    | -                  | 1                                  | 0.0%  |
| - other   | 1,067                                | -                  | 1,067                              | 0.0%  |
| <b>Loans and advances<br/>past due but not<br/>impaired</b>     | <b>347,738</b>                       | -                  | <b>347,738</b>                     | <b>0.0%</b>   |
| <b>Loans to legal entities</b>                                  | <b>343,893</b>                       | -                  | <b>343,893</b>                     | <b>0.0%</b>   |
| <b>Loans to individuals</b>                                     | <b>3,845</b>                         | -                  | <b>3,845</b>                       | <b>0.0%</b>   |
| - mortgage  | 1,146                                | -                  | 1,146                              | 0.0%  |
| - car   | 2,483                                | -                  | 2,483                              | 0.0%  |
| - other   | 216                                  | -                  | 216                                | 0.0%  |
| <b>Loans and advances<br/>individually impaired</b>             | <b>3,985,557</b>                     | <b>(2,142,273)</b> | <b>1,843,284</b>                   | <b>53.8%</b>  |
| <b>Loans to legal entities</b>                                  | <b>3,507,414</b>                     | <b>(1,755,559)</b> | <b>1,751,855</b>                   | <b>50.1%</b>  |
| <b>Loans to individuals</b>                                     | <b>478,143</b>                       | <b>(386,714)</b>   | <b>91,429</b>                      | <b>80.9%</b>  |
| - mortgage  | 65,376                               | (51,512)           | 13,864                             | 78.8%   |
| - car   | 68,554                               | (58,987)           | 9,567                              | 86.0%   |
| - credit cards  | 79,396                               | (64,340)           | 15,056                             | 81.0%   |
| - other   | 264,817                              | (211,875)          | 52,942                             | 80.0%   |
| <b>Loans and advances<br/>collectively impaired</b>             | <b>86,105</b>                        | <b>(1,735)</b>     | <b>84,370</b>                      | <b>2.0%</b>   |
| <b>Loans to legal entities</b>                                  | <b>13,465</b>                        | <b>(313)</b>       | <b>13,152</b>                      | <b>2.3%</b>   |
| <b>Loans to individuals</b>                                     | <b>72,640</b>                        | <b>(1,422)</b>     | <b>71,218</b>                      | <b>2.0%</b>   |
| - mortgage  | 406                                  | (2)                | 404                                | 0.5%  |
| - car   | 1,163                                | (56)               | 1,107                              | 4.8%  |
| - credit cards  | 70,524                               | (1,290)            | 69,234                             | 1.8%  |
| - other   | 547                                  | (74)               | 473                                | 13.7%   |
| <b>Total loans to<br/>customers</b>                             | <b>6,145,644</b>                     | <b>(2,144,008)</b> | <b>4,001,636</b>                   | <b>34.9%</b>  |

As at December 31, 2016 accrued interest income from individually impaired loans was UAH 1,047,358 thousand (2015: UAH 833,202 thousand).

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

Analysis by credit quality of loans to customers as at December 31, 2015 is as follows:

|   | <i>Loans and<br/>advances, gross</i> | <i>Impairment</i>  | <i>Loans and<br/>advances, net</i> | <i>Impairment to<br/>gross loans and<br/>advances</i> |
|---|--------------------------------------|--------------------|------------------------------------|---|
| <b>Loans and advances<br/>neither past due nor<br/>impaired</b> | <b>1,638,797</b>                     | <b>-</b>           | <b>1,638,797</b>                   | <b>0.0%</b>   |
| <b>Loans to legal entities</b>                                  | <b>1,622,535</b>                     | <b>-</b>           | <b>1,622,535</b>                   | <b>0.0%</b>   |
| <b>Loans to individuals</b>                                     | <b>16,262</b>                        | <b>-</b>           | <b>16,262</b>                      | <b>0.0%</b>   |
| - mortgage  | 2,016                                | -                  | 2,016                              | 0.0%  |
| - car   | 927                                  | -                  | 927                                | 0.0%  |
| - credit cards  | 209                                  | -                  | 209                                | 0.0%  |
| - other   | 13,110                               | -                  | 13,110                             | 0.0%  |
| <b>Loans and advances past<br/>due but not impaired</b>         | <b>826,213</b>                       | <b>-</b>           | <b>826,213</b>                     | <b>0.0%</b>   |
| <b>Loans to legal entities</b>                                  | <b>819,270</b>                       | <b>-</b>           | <b>819,270</b>                     | <b>0.0%</b>   |
| <b>Loans to individuals</b>                                     | <b>6,943</b>                         | <b>-</b>           | <b>6,943</b>                       | <b>0.0%</b>   |
| - mortgage  | 1,941                                | -                  | 1,941                              | 0.0%  |
| - car   | 3,750                                | -                  | 3,750                              | 0.0%  |
| - credit cards  | -                                    | -                  | -                                  | -   |
| - other   | 1,252                                | -                  | 1,252                              | 0.0%  |
| <b>Loans and advances<br/>individually impaired</b>             | <b>3,978,231</b>                     | <b>(1,806,587)</b> | <b>2,171,644</b>                   | <b>45.4%</b>  |
| <b>Loans to legal entities</b>                                  | <b>3,558,617</b>                     | <b>(1,518,050)</b> | <b>2,040,567</b>                   | <b>42.7%</b>  |
| <b>Loans to individuals</b>                                     | <b>419,614</b>                       | <b>(288,537)</b>   | <b>131,077</b>                     | <b>68.8%</b>  |
| - mortgage  | 55,417                               | (37,806)           | 17,611                             | 68.2%   |
| - car   | 55,614                               | (43,997)           | 11,617                             | 79.1%   |
| - credit cards  | 76,427                               | (54,659)           | 21,768                             | 71.5%   |
| - other   | 232,156                              | (152,075)          | 80,081                             | 65.5%   |
| <b>Loans and advances<br/>collectively impaired</b>             | <b>18,480</b>                        | <b>(820)</b>       | <b>17,660</b>                      | <b>4.4%</b>   |
| <b>Loans to legal entities</b>                                  | <b>12,371</b>                        | <b>(105)</b>       | <b>12,265</b>                      | <b>0.8%</b>   |
| <b>Loans to individuals</b>                                     | <b>6,109</b>                         | <b>(714)</b>       | <b>5,395</b>                       | <b>11.7%</b>  |
| - mortgage  | 733                                  | (204)              | 529                                | 27.8%   |
| - car   | 2,746                                | (97)               | 2,649                              | 3.5%  |
| - credit cards  | 1,315                                | (240)              | 1,075                              | 18.3%   |
| - other   | 1,315                                | (173)              | 1,142                              | 13.2%   |
| <b>Total loans to customers</b>                                 | <b>6,461,721</b>                     | <b>(1,807,407)</b> | <b>4,654,314</b>                   | <b>28.0%</b>  |

Amount and type of collateral required by the Bank depends on assessment of the counterparty's credit risk. The Bank has policies and procedures established for accepting collateral types and their valuation.

The main types of the collateral received under for loans to legal entities and individuals are cash, real estate and other pledged assets, guarantees issued by individuals and legal entities, however guarantees, goods in turnover and property rights on contracts are generally not considered in calculation allowance for impairment.

See below the effect of collateral as at December 31, 2016:

|                                | <i>Carrying value of<br/>loans to<br/>customers</i> | <i>Expected cash<br/>flows from<br/>collateral<br/>realization</i> | <i>Collateral effect</i> |
|--------------------------------|---|--|--------------------------|
| <b>Loans to legal entities</b> | <b>5,588,301</b>                                    | <b>2,665,135</b>   | <b>2,923,166</b>         |
| <b>Loans to individuals</b>    | <b>557,343</b>                                      | <b>73,480</b>  | <b>483,863</b>           |
| - mortgage                     | 68,464  | 13,477   | 54,987                   |
| - car                          | 72,310  | 10,714   | 61,596                   |
| - credit cards                 | 149,921   | 821  | 149,100                  |
| - other                        | 266,648   | 48,468   | 218,180                  |
| <b>Loans to customers</b>      | <b>6,145,644</b>                                    | <b>2,738,615</b>   | <b>3,407,029</b>         |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The effect of collateral as at December 31, 2015 is:

|                                | <i>Carrying value of<br/>loans to<br/>customers</i> | <i>Expected cash<br/>flows from<br/>collateral<br/>realization</i> | <i>Collateral effect</i> |
|--------------------------------|---|--|--------------------------|
| <b>Loans to legal entities</b> | <b>6,012,793</b>                                    | <b>3,556,790</b>   | <b>2,456,003</b>         |
| <b>Loans to individuals</b>    | <b>448,928</b>                                      | <b>43,859</b>  | <b>405,069</b>           |
| - mortgage                     | 60,107  | 4,938  | 55,169                   |
| - car                          | 63,037  | 17,589   | 45,448                   |
| - credit cards                 | 77,951  | 357  | 77,549                   |
| - other                        | 247,833   | 20,975   | 226,858                  |
| <b>Loans to customers</b>      | <b>6,461,721</b>                                    | <b>3,600,649</b>   | <b>2,861,072</b>         |

**Concentration of client loans**

Loans granted to five largest groups of borrowers, among which no entities were related parties of the Bank, amounted to UAH 2,208,809 thousand or 35.9% of the total loans to customers as of December 31, 2016 (2015: UAH 1,929,016 thousand or 29.9%).

During 2016 outstanding indebtedness of legal entities and individuals denominated in UAH and USD was reduced by UAH 217.6 million (2015: UAH 867.7 million) and by USD 27 million (2015: USD 38.3 million) respectively. Instead, the indebtedness denominated in Euro increased by EUR 0.4 million (2015: EUR 1.05 million).

On May 12, 2015, the NBU approved Resolution No 315 on Regulation on the definition of parties related to a bank, which introduced its own set of criteria for the recognition of related parties, differing significantly from related parties recognition criteria under IAS 24.

As of December 31, 2016 the total amount of loans to two companies, which do not meet the related party criteria under IAS 24, but are considered to be related to the Bank in accordance to the NBU regulations, was UAH 129,190 thousand (2015: UAH 128,814 thousand).

Breakdown of loans to customers by industries, whose credit risk influences loan quality, is:

|   | <i>2016</i>      | <i>2015</i>      |
|---|------------------|------------------|
| Wholesale and retail trade                          | 2,238,517        | 1,983,667        |
| Manufacturing                                       | 2,140,946        | 2,405,264        |
| Individuals   | 557,343          | 448,928          |
| Agriculture   | 348,711          | 469,683          |
| Real estate transactions                            | 233,648          | 410,754          |
| Activities in administrative and ancillary services | 210,484          | 189,409          |
| Mining industry and quarry development              | 184,091          | 163,523          |
| Information and telecommunications                  | 143,987          | 115,865          |
| Transport, warehouses                               | 83,765           | 92,218           |
| Waste management                                    | 2,444            | 1,942            |
| Construction  | 1,515            | 46,922           |
| Professional, scientific and technical activities   | -                | 126,427          |
| Financial and insurance activities                  | -                | 7,118            |
| Other   | 192              | -                |
| <b>Loans to customers</b>                           | <b>6,145,644</b> | <b>6,461,721</b> |

As at December 31, 2016 and 2015 there were no loans used as collateral for any liabilities of the Bank.

Breakdown of loans to customers by repayment period, interest rate and currency is provided in Note 27.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

**9. Securities available-for-sale**

Investments in available-for-sale securities comprise:

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Equity securities and other financial instruments with unfixed income, accounted at cost | 472         | 472         |
| <b>Securities available-for-sale</b>   | <b>472</b>  | <b>472</b>  |
| Less: provision for impairment of securities available-for-sale                          | (31)        | (31)        |
| <b>Total securities available-for-sale</b>   | <b>441</b>  | <b>441</b>  |

As of December 31, 2016 portfolio of securities available-for-sale includes investments in equity securities, whose fair value cannot be reliably determined, for which impairment is recognized in the amount of UAH 31 thousand. During 2016, the Bank did not make charges to provision for impairment (2015: UAH 31 thousand).

As at December 31, 2016 the Bank does not have any "repo" agreements.

**10. Investment property**

Investment property initially received through enforcement of collateral is recognized in the statement of financial position at fair value.

Change of the investment property fair value:

|   | <b>2016</b>      | <b>2015</b>    |
|---|------------------|----------------|
| <b>As at January 1</b>  | <b>319,597</b>   | <b>165,413</b> |
| Transfer from non-current assets available-for-sale (Note 14) | 527,404          | 99,967         |
| Enforcement of collateral                                     | 132,833          | -              |
| Transfer from other assets (Note 11)                          | 9,904            | -              |
| Transfer from owner-occupied buildings (Note 12)              | 494              | -              |
| Capital investments for reconstruction                        | 45               | 106            |
| Transfer to owner-occupied buildings (Note 12)                | (59,202)         | -              |
| Transfer to non-current assets available-for-sale (Note 14)   | (10,679)         | (9,398)        |
| Surplus from revaluation to fair value                        | 356,107          | 63,509         |
| <b>As at December 31</b>                                      | <b>1,276,502</b> | <b>319,597</b> |

Lease income received from investment property during 2016 totaled UAH 6,340 thousand (2015: UAH 4,143 thousand), which is recognized as other income in the statement of profit or loss and other comprehensive income (Note 24).

If property, partly owner-occupied and partly rented, does not meet criteria of delimitation for recognizing property as investment one, such property is recognized as owner-occupied property.

In 2016 and 2015, the Management of the Bank approved decisions to adjust carrying value of all investment property items based on the reports of independent appraisers on determination of fair value of investment property. According to the carrying amount adjustment it was recognized a gain for UAH 356,107 thousand (2015: 63,509 thousand), which is reported in statement of profit and loss and other comprehensive income.

As of December 31, 2016 one item of investment property at fair value of UAH 14,808 thousand (2015: UAH 14,090 thousand) is located in Crimea. Now the Bank retains control over this property, but can take losses at loss of control in case of further deterioration of relations between Ukraine and Russian Federation.

The Bank does not any contractual commitments on purchase of investment property, its repair, maintenance or upgrading.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

**11. Other financial and non-financial assets**

As at December 31, other financial and non-financial assets comprised:

|  | <i>2016</i>   | <i>2015</i>    |
|--|---------------|----------------|
| <b>Other financial assets</b>                                |               |                |
| Accrued income receivable                                    | 41,214        | 24,206         |
| Accounts receivable on settlements with banks                | 26,104        | -              |
| Accounts receivable on settlements with customers            | 9,260         | 4,211          |
| Derivative financial assets (Note 30)                        | 8,857         | 28,388         |
| Restricted amounts due from other banks                      | 857           | 699,451        |
| Cash with non-approved availability                          | 137           | 124            |
| <b>Other financial assets</b>                                | <b>86,429</b> | <b>756,380</b> |
| Less: Provision for impairment of other financial assets     | (49,799)      | (21,971)       |
| <b>Other financial assets</b>                                | <b>36,630</b> | <b>734,409</b> |
| <b>Other assets</b>  |               |                |
| Repossessed collateral (Note 14)                             | 13,257        | -              |
| Prepaid expenses   | 9,463         | 2,393          |
| Settlements with bank's employees                            | 8,240         | 7,347          |
| Expenses of future periods                                   | 2,562         | 2,973          |
| Purchase of non-current assets                               | 2,407         | 584            |
| Prepaid taxes and mandatory payments other than income tax   | 867           | 42             |
| Inventories  | 493           | 2,526          |
| Precious metals  | 452           | 547            |
| <b>Other assets</b>  | <b>37,741</b> | <b>16,412</b>  |
| Less: Provision for impairment of other non-financial assets | (9,783)       | (7,297)        |
| <b>Other assets</b>  | <b>27,958</b> | <b>9,115</b>   |

As of December 31, 2016, other financial assets include fund balances in a Ukrainian bank amounting to UAH 857 thousand, which were seized as a security of lawsuit claims (Note 21). During 2016 the fund balances in a bank in an European country, not included in OECD, amounting to UAH 699,165 thousand by the end of 2015, were returned to the Bank according to the schedule approved by the Supervisory Board within the Program of financial recovery of the Bank.

In addition, Precious metals item in other assets includes balances on current accounts for UAH 24 thousand (2015: UAH 21 thousand) in one bank located in OECD (2015: one bank located in OECD), denominated in precious metals. These funds are non-financial in origin and are not subject to management of financial risks.

During the year, the changes of the items of the provision for losses on impairment of other assets were as follows:

|                                    | <i>2016</i>   | <i>2015</i>   |
|------------------------------------|---------------|---------------|
| <b>January 1</b>                   | <b>29,268</b> | <b>10,058</b> |
| Charge to provision for impairment | 27,742        | 17,605        |
| Translation differences            | 3,049         | 2,594         |
| Write-offs                         | (477)         | (989)         |
| <b>December 31</b>                 | <b>59,582</b> | <b>29,268</b> |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

**12. Property, equipment and intangible assets**

Movements in property, equipment and intangible assets during the year ended December 31, 2016 are:

|   | <i>Buildings,<br/>facilities and<br/>transmitting<br/>equipment</i> | <i>Furniture,<br/>appliances<br/>and office<br/>equipment</i> | <i>Machinery<br/>and<br/>equipment</i> | <i>Vehicles</i> | <i>Other PE<br/>and non-<br/>current<br/>tangible<br/>assets</i> | <i>Intangible<br/>assets</i> | <i>Capital<br/>investments<br/>in progress in<br/>PE and<br/>intangible<br/>assets</i> | <i>Total</i>   |
|---|---|---|--|-----------------|--|------------------------------|--|----------------|
| <b>Cost or revalued<br/>amount</b>                                |   |   |  |                 |  |                              |  |                |
| <b>December 31,<br/>2015</b>                                      | <b>153,963</b>  | <b>38,851</b>   | <b>27,826</b>                          | <b>6,395</b>    | <b>31,679</b>  | <b>23,054</b>                | <b>3,516</b>   | <b>285,284</b> |
| Additions   | 127   | 3,014   | 962                                    | -               | 3,842  | 7,080                        | -  | 15,025         |
| Transfers to non-<br>current assets<br>held-for-sale<br>(Note 14) | (1,856)   | -   | -                                      | (171)           | -  | -                            | -  | (2,027)        |
| Transferred from<br>investment<br>property (Note 10)              | 59,202  | -   | -                                      | -               | -  | -                            | -  | 59,202         |
| Transferred to<br>investment<br>property (Note 10)                | (494)   | -   | -                                      | -               | -  | -                            | -  | (494)          |
| Disposals   | -   | (4,274)   | (4,172)                                | (1,086)         | (5,006)  | -                            | (1,370)  | (15,908)       |
| Переоцінка через<br>інший сукупний<br>дохід                       | 1,245   | -   | -                                      | -               | -  | -                            | -  | 1,245          |
| Переоцінка через<br>прибутки/<br>(збитки)                         | (271)   | -   | -                                      | -               | -  | -                            | -  | (271)          |
| Переоцінка<br>(виключення з<br>балансової<br>вартості)            | (22,711)  | -   | -                                      | -               | -  | -                            | -  | (22,711)       |
| Інші переведення  | (28)  | -   | -                                      | -               | 28   | -                            | -  | -              |
| <b>December 31,<br/>2016</b>                                      | <b>189,177</b>  | <b>37,591</b>   | <b>24,616</b>                          | <b>5,138</b>    | <b>30,543</b>  | <b>30,134</b>                | <b>2,146</b>   | <b>319,345</b> |
| <b>Accumulated<br/>depreciation<br/>and<br/>amortization</b>      |   |   |  |                 |  |                              |  |                |
| <b>December 31,<br/>2015</b>                                      | <b>20,129</b>   | <b>33,837</b>   | <b>23,862</b>                          | <b>5,639</b>    | <b>27,975</b>  | <b>15,584</b>                | <b>-</b>   | <b>127,026</b> |
| Charge for the year   | 2,658   | 2,997   | 1,826                                  | 483             | 3,438  | 2,801                        | -  | 14,203         |
| Disposals   | -   | (4,263)   | (4,172)                                | (1,086)         | (4,809)  | -                            | -  | (14,330)       |
| Revaluation<br>(exclusion from<br>carrying value)                 | (22,711)  | -   | -                                      | -               | -  | -                            | -  | (22,711)       |
| Other transfers   | (8)   | -   | -                                      | -               | 8  | -                            | -  | -              |
| <b>December 31,<br/>2016</b>                                      | <b>68</b>   | <b>32,571</b>   | <b>21,516</b>                          | <b>5,036</b>    | <b>26,612</b>  | <b>18,385</b>                | <b>-</b>   | <b>104 188</b> |
| <b>Net book value</b>   |   |   |  |                 |  |                              |  |                |
| <b>December 31, 2015</b>  | <b>133,834</b>  | <b>5,014</b>  | <b>3,964</b>                           | <b>756</b>      | <b>3,704</b>   | <b>7,470</b>                 | <b>3,516</b>   | <b>158,258</b> |
| <b>December 31, 2016</b>  | <b>189,109</b>  | <b>5,020</b>  | <b>3,100</b>                           | <b>102</b>      | <b>3,931</b>   | <b>11,749</b>                | <b>2,146</b>   | <b>215,157</b> |

Buildings are recognized at a revalued amount representing fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses.

The fair value of buildings and facilities was determined by the method of comparison with market data. The appraisal was completed by the independent appraisal as of November 1, 2016 (Note 31). Profit and loss from revaluation of buildings and facilities is recognized in other comprehensive income and profit and loss of the Bank.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

As at December 31, 2016, the cost of fully depreciated property, plant and equipment included in Furniture, implements and office equipment group totaled UAH 25,435 thousand (2015: UAH 25,661 thousand), included in Machinery and equipment group - UAH 11,961 thousand (2015: UAH 13,151 thousand), included in Vehicles group - UAH 4,736 thousand (2015: UAH 442 thousand), included in Other property and equipment and non-current tangible assets group - UAH 24,061 thousand (2015: UAH 24,840 thousand). As of December 31, 2016 fixed assets were not pledged (2015: fixed assets of UAH 115,103 thousand value were pledged).

Movements in property, equipment and intangible assets during the year ended December 31, 2015 are:

|   | <i>Buildings,<br/>facilities and<br/>transmitting<br/>equipment</i> | <i>Furniture,<br/>appliances<br/>and office<br/>equipment</i> | <i>Machinery<br/>and<br/>equipment</i> | <i>Vehicles</i> | <i>Other<br/>PE and<br/>non-<br/>current<br/>tangible<br/>assets</i> | <i>Intangible<br/>assets</i> | <i>Capital<br/>investments<br/>in progress<br/>in PE and<br/>intangible<br/>assets</i> | <i>Total</i>   |
|---|---|---|--|-----------------|--|------------------------------|--|----------------|
| <b>Cost or revalued<br/>amount</b>                              |   |   |  |                 |  |                              |  |                |
| <b>December 31, 2014</b>  | <b>153,565</b>  | <b>36,234</b>   | <b>26,930</b>                          | <b>7,241</b>    | <b>28,541</b>  | <b>15,684</b>                | <b>6,143</b>   | <b>274,302</b> |
| Additions   | 398   | 3,141   | 1,016                                  | -               | 4,702  | 7,406                        | -  | 16,663         |
| Transfers to non-<br>current assets held-<br>for-sale (Note 14) | -   | -   | -                                      | (347)           | -  | -                            | -  | (347)          |
| Disposals   | -   | (524)   | (120)                                  | (499)           | (1,564)  | -                            | (2,627)  | (5,334)        |
| <b>December 31, 2015</b>  | <b>153,963</b>  | <b>38,851</b>   | <b>27,826</b>                          | <b>6,395</b>    | <b>31,679</b>  | <b>23,054</b>                | <b>3,516</b>   | <b>285,284</b> |
| <b>Accumulated<br/>depreciation and<br/>amortization</b>        |   |   |  |                 |  |                              |  |                |
| <b>December 31, 2014</b>  | <b>17,395</b>   | <b>30,063</b>   | <b>20,884</b>                          | <b>4,859</b>    | <b>26,519</b>  | <b>13,886</b>                | <b>-</b>   | <b>113,606</b> |
| Charge for the year   | 2,734   | 4,292   | 3,098                                  | 1,279           | 3,010  | 1,698                        | -  | 16,111         |
| Disposals   | -   | (518)   | (120)                                  | (499)           | (1,554)  | -                            | -  | (2,691)        |
| <b>December 31, 2015</b>  | <b>20,129</b>   | <b>33,837</b>   | <b>23,862</b>                          | <b>5,639</b>    | <b>27,975</b>  | <b>15,584</b>                | <b>-</b>   | <b>127,026</b> |
| <b>Net book value</b>   |   |   |  |                 |  |                              |  |                |
| <b>December 31, 2014</b>  | <b>136,170</b>  | <b>6,171</b>  | <b>6,046</b>                           | <b>2,382</b>    | <b>2,022</b>   | <b>1,762</b>                 | <b>6,143</b>   | <b>160,696</b> |
| <b>December 31, 2015</b>  | <b>133,834</b>  | <b>5,014</b>  | <b>3,964</b>                           | <b>756</b>      | <b>3,704</b>   | <b>7,470</b>                 | <b>3,516</b>   | <b>158,258</b> |

As of December 31, 2016 and 2015, the Bank does not have any contractual commitments on purchase of fixed assets and intangible assets.

### 13. Deferred income tax assets

According to the Tax Code of Ukraine, rate of corporate income tax as at 1 January 2017 and 2016 was 18%. Deferred tax assets and liabilities are determined by the Bank using the tax rate that will apply starting from January 1, 2017.

The components of income tax (benefit)/expense recognized in the profit or loss for the year ended 31 December are:

|   | <i>2016</i>      | <i>2015</i>     |
|---|------------------|-----------------|
| Deferred income tax benefit – origination and reversal of temporary differences | (117,727)        | (79,901)        |
| <b>Income tax benefit</b>   | <b>(117,727)</b> | <b>(79,901)</b> |

The reconciliation between expected income tax (benefit)/expense calculated by applying the effective income tax rate to profit before tax and the reported income tax (benefit)/expense is as follows:

|   | <i>2016</i> | <i>%</i> | <i>2015</i> | <i>%</i> |
|---|-------------|----------|-------------|----------|
| Profit/ (Loss) before income tax                                  | (674,317)   |          | 229,164     |          |
| Expected expense / (benefit) computed at effective statutory rate | (121,377)   | 18.0%    | 41,250      | 18.0%    |
| Recognition of impairment of deferred tax asset                   | -           | -        | (156,863)   | (68.5%)  |
| Reassessment of temporary differences                             | (12,103)    | 1.8%     | 15,525      | 6.8%     |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

|                               |                  |              |                 |                |
|-------------------------------|------------------|--------------|-----------------|----------------|
| Write off, remission of loans | 15,478           | (2.3%)       | 17,885          | 7.8%           |
| Net non-deductible expenses   | 275              | -            | 2,302           | 1.0%           |
| <b>Income tax benefit</b>     | <b>(117,727)</b> | <b>17.5%</b> | <b>(79,901)</b> | <b>(34.9%)</b> |

Deferred tax assets and liabilities as at 31 December 2016 are attributable to the items detailed as follows:

|   | <i>At December 31,<br/>2015</i> | <i>Recognized<br/>in profit or<br/>loss</i> | <i>At December<br/>31, 2016</i> |
|---|---------------------------------|---|---------------------------------|
|   | <i>Asset/ (Liability)</i>       | <i>Benefit/<br/>(expense)</i>               | <i>Asset/ (Liability)</i>       |
| Provision for impairment of loans and advances to customers | 141,138                         | 14,878                                      | 156,016                         |
| Amortized cost of amounts due from banks                    | 162                             | (162)                                       | -                               |
| Property and equipment and intangible assets                | 2,873                           | (1,558)                                     | 1,315                           |
| Revalued amount of investment property                      | (9,497)                         | 1,409                                       | (8,088)                         |
| Impairment of other assets                                  | 5,202                           | (5,177)                                     | 25                              |
| Other assets  | 966                             | (641)                                       | 325                             |
| Other liabilities   | (124)                           | 443   | 319                             |
| Tax losses deferred to future periods                       | 4,111                           | 108,862                                     | 112,973                         |
| Other temporary differences                                 | 328                             | (328)                                       | -                               |
|   | <b>145,159</b>                  | <b>117,727</b>                              | <b>262,885</b>                  |

Deferred tax assets and liabilities as at December 31, 2015 are attributable to the items detailed as follows:

|   | <i>At December 31,<br/>2014</i> | <i>Recognized<br/>in profit or<br/>loss</i> | <i>Recognized<br/>in other<br/>comprehensive<br/>income</i> | <i>At December<br/>31, 2015</i> |
|---|---------------------------------|---|---|---------------------------------|
|   | <i>Asset/ (Liability)</i>       | <i>Benefit/<br/>(expense)</i>               | <i>Benefit</i>  | <i>Asset/ (Liability)</i>       |
| Recognition of impairment of deferred tax asset             | (156,863)                       | 156,863                                     | -   | -                               |
| Provision for impairment of loans and advances to customers | 232,252                         | (91,114)                                    | -   | 141,138                         |
| Amortized cost of amounts due from banks                    | (19)                            | 181   | -   | 162                             |
| Fair value of securities available-for-sale                 | (603)                           | 603   | -   | -                               |
| Property and equipment and intangible assets                | 137                             | 2,736                                       | -   | 2,873                           |
| Revalued amount of investment property                      | (10,068)                        | 571   | -   | (9,497)                         |
| Impairment of other assets                                  | (94)                            | 5,296                                       | -   | 5,202                           |
| Other assets  | -                               | 966   | -   | 966                             |
| Other liabilities   | -                               | (124)                                       | -   | (124)                           |
| Amortized cost of due to customers                          | 37                              | (37)  | -   | -                               |
| Tax losses deferred to future periods                       | -                               | 4,111                                       | -   | 4,111                           |
| Other temporary differences                                 | 380                             | (52)  | -   | 328                             |
|   | <b>65,159</b>                   | <b>80,000</b>                               | <b>-</b>  | <b>145,159</b>                  |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

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

As of December 31 non-current assets held-for-sale are:

|   | <b>2016</b>    | <b>2015</b>    |
|---|----------------|----------------|
| Nonresidential premises                       | 62,719         | 8,853          |
| Integral property complexes                   | 47,754         | -              |
| Residential premises                          | 3,464          | 6,059          |
| Land lots                                     | -              | 453,437        |
| Other   | 1,042          | 2,967          |
| <b>Non-current assets held-for-sale total</b> | <b>114,979</b> | <b>471,316</b> |

The Bank management decided to reclassify part of non-current assets held-for-sale, due to changes in plans for the use of these assets. Changes in the structure of assets held-of-sale include:

|   | <b>2016</b>    | <b>2015</b>    |
|---|----------------|----------------|
| <b>At January 1</b>   | <b>471,316</b> | <b>6,446</b>   |
| Foreclosure of collateral accepted to secure loans  | 190,415        | 565,484        |
| Disposal of non-current assets held-for-sale  | (15,424)       | (12,032)       |
| Loan recovery   | -              | (3,323)        |
| Reclassification to investment property (Note 10)   | (527,404)      | (99,967)       |
| Transfer from owner-occupied buildings (Note 12)  | 2,027          | 347            |
| Reclassification from investment property (Note 10)   | 10,679         | 9,398          |
| Transfer from/to other assets (Note 11)   | (13,078)       | 4,798          |
| Increase/ (Decrease) in carrying value of non-current assets held-for-sale up to fair value | (3,552)        | 165            |
| <b>At December 31</b>   | <b>114,979</b> | <b>471,316</b> |

Result from sale of non-current assets held-for-sale is disclosed in Other income item of the statement of profit and loss and other comprehensive income (Note 24).

**15. Amounts due to banks**

As at December 31 amounts due to banks include:

|                             | <b>2016</b> | <b>2015</b>    |
|-----------------------------|-------------|----------------|
| Loans from the NBU          | -           | 357,000        |
| Current accounts with banks | 45          | 40             |
| <b>Amounts due to banks</b> | <b>45</b>   | <b>357,040</b> |

On March 26, 2015 the agreement was signed for granting the stabilization loan to the Bank by the National Bank of Ukraine in the amount of UAH 357,000 thousand for two years. The decision was taken to support the Bank's liquidity and to ensure its obligations to individual depositors. During 2016, the Bank redeemed in advance (in seven months before maturity) the received loan. Immovable property of the Bank (UAH 177,647 thousand of collateral value) and of the property surety provider (UAH 610,249 thousand) was unpledged.

## 16. Amounts due to customers

As at December 31 amounts due to customers comprised:

|                                 | 2016             | 2015             |
|---------------------------------|------------------|------------------|
| Current accounts:               |                  |                  |
| - legal entities                | 2,325,240        | 1,841,597        |
| - individuals                   | 745,476          | 694,122          |
|                                 | <b>3,070,716</b> | <b>2,535,719</b> |
| Term deposits:                  |                  |                  |
| - legal entities                | 600,400          | 736,943          |
| - individuals                   | 3,771,170        | 3,011,011        |
|                                 | <b>4,371,570</b> | <b>3,747,954</b> |
| <b>Amounts due to customers</b> | <b>7,442,286</b> | <b>6,283,673</b> |

As at December 31, 2016, the balances on current accounts of legal entities amounting to UAH 801,043 thousand or 26.0% of total current accounts of customers are placed by ten largest corporate customers (2015: UAH 1,152,686 thousand or 45.5%). The current account with balance amounting to UAH 16,497 thousand, 0.5% of total balances on current accounts of customers, is placed by one individual customer (2015: UAH 33,075 thousand or 1.8%).

As at December 31, 2016, deposits of legal entities in the amount of UAH 360,435 thousand or 8.2% of the total amount of deposits from customers (2015: UAH 504,429 thousand or 13.5%) were placed by ten largest corporate customers. As at December 31, 2016, deposits of individuals amounting to UAH 337,704 thousand or 7.0% of the total amount of deposits from customers were placed by three largest customers (2015: UAH 300,541 thousand or 8.0%).

As at December 31, 2016, balances on current accounts and term deposits of legal entities in the amount of UAH 887,021 thousand or 11.9% of total customer funds (2015: UAH 1,250,773 thousand or 19.9%) were attracted from customers who did not meet the related party criteria under IAS 24, but considered to be related to the Bank in accordance with the regulations of the NBU.

As at December 31, 2016, current accounts of legal entities in the amount of UAH 121,102 thousand (2015: UAH 715,193 thousand) were pledged as collateral under the documentary transactions of the Bank. As at December 31, 2016, term deposits of legal entities and individuals in the amount of UAH 129,499 thousand (2015: UAH 257,351 thousand) were pledged as collateral under the credit transactions of customers.

In accordance to Ukrainian legislation, the Bank is obliged to repay deposit in advance to an individual against provision of properly formalized claim, if deposit agreement allows repayment of deposit in advance.

Breakdown of amounts due to customers by maturity, interest rates and currency is given in Note 27.

## 17. Debt securities issued

As of December 31, 2016, debt securities are short-term savings (deposit) certificates to individuals for UAH 136,354 thousand (2015: UAH 150,560 thousand) equivalent to USD 4,452 thousand, EUR 538 thousand (2015: USD 5,303 thousand, EUR 886 thousand and UAH 53 thousand).

|  | 2016           | 2015           |
|--|----------------|----------------|
| Deposit certificates, issued in USD      | 121,049        | 127,272        |
| Deposit certificates, issued in EUR      | 15,305         | 23,235         |
| Deposit certificates, issued в UAH       | -              | 53             |
| <b>Issued deposit certificates total</b> | <b>136,354</b> | <b>150,560</b> |

The breakdown of debt securities issued by the Bank on maturity, interest rates and currency is disclosed in Note 27.

## 18. Subordinated debt

In December 2015, the Bank's Shareholder decided to increase the share capital of the Bank for USD 28,000 thousand. On January 21, 2016, the NBU gave the Bank a permission for the early repayment of the subordinated debt for USD 28,000 thousand to use these funds for increase of the Bank's authorized capital. During 2016, cash on early repayment of subordinated debt was transferred in full to the respective accounts of the Bank as payment for its shares (Note 20).

## 19. Other financial and non-financial liabilities

Other financial and non-financial liabilities as at December 31 include the following items:

|  |    | <i>2016</i>   | <i>2015</i>   |
|--|----|---------------|---------------|
| <b>Other financial liabilities</b>   |    |               |               |
| Balances on transit accounts on transactions with payment cards                |    | 37,187        | 4,484         |
| Balances on transit accounts on transactions with customers                    |    | 8,866         | 1,125         |
| Derivative financial liabilities   | 30 | 5,558         | 1,950         |
| Accrued expenses   |    | 5,383         | 2,249         |
| Balances of transit accounts on transactions with banks                        |    | 3,382         | -             |
| Provision for losses   | 21 | 327           | 1,094         |
| Other  |    | 2,083         | 1,674         |
| <b>Other financial liabilities</b>   |    | <b>62,786</b> | <b>12,576</b> |
| <b>Other non-financial liabilities</b>   |    |               |               |
| Amounts payable to Individuals' Deposit Guarantee Fund                         |    | 13,152        | 10,864        |
| Accrued payments on unused vacations   |    | 9,846         | 7,570         |
| Obligations on payments of taxes and mandatory payments, other than income tax |    | 9,500         | 8,880         |
| Deferred income  |    | 4,274         | 714           |
| Amounts payable on purchased assets, rendered services                         |    | 2,903         | 1,184         |
| Salary accruals to employees   |    | 1,163         | 88            |
| <b>Other non-financial liabilities</b>   |    | <b>40,838</b> | <b>29,300</b> |

## 20. Equity

Movements in the Bank's shares issued, fully paid and outstanding are:

|                          | <i>Number of shares</i> | <i>Nominal value</i> | <i>Inflation</i>  |                  |
|--------------------------|-------------------------|----------------------|-------------------|------------------|
|                          | <i>Ordinary</i>         | <i>Ordinary</i>      | <i>adjustment</i> | <i>Total</i>     |
| <b>December 31, 2014</b> | <b>585,000,000</b>      | <b>585,000</b>       | <b>23,666</b>     | <b>608,666</b>   |
| Share issue              | 250,000,000             | 250,000              | -                 | 250,000          |
| <b>December 31, 2015</b> | <b>835,000,000</b>      | <b>835,000</b>       | <b>23,666</b>     | <b>858,666</b>   |
| Share issue              | 686,000,000             | 686,000              | -                 | 686,000          |
| <b>December 31, 2016</b> | <b>1 521,000,000</b>    | <b>1,521,000</b>     | <b>23,666</b>     | <b>1,544,666</b> |

The nominal value of the ordinary shares is UAH 1.00 per share as at December 31, 2016 and 2015. The inflation adjustment to share capital was made to account for the hyperinflation effect in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" and the Bank's accounting policy.

All ordinary shares are fully paid and have equal voting, dividend and capital repayment rights. The Bank declared no dividends during 2016 and 2015, as well as 2017 and before the date of approval of these financial statements.

In December 2015, the Bank's Shareholder have decided to increase the share capital of UAH 686,000 thousand to UAH 1,521,000 thousand. During 2016 cash contributions to share capital increase were fully paid. In April 2016, the Bank's Shareholder made a decision to amend the charter of the Bank, under which the share capital comprised UAH 1,521,000 thousand.

In April 2015, the Bank's Shareholder decided to increase the share capital by UAH 250,000 thousand to UAH 835,000 thousand. During 2015 cash contributions to share capital increase were fully paid. In April 2015, the Bank's Shareholder made a decision to amend the charter of the Bank, under which the share capital comprises UAH 835,000 thousand.

During 2016, the Bank used UAH 59,769 thousand of reserve and other funds of the Bank formed as of December 31, 2015 and net income for 2015 in the amount of UAH 309,065 thousand to cover losses of past periods.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

Revaluation reserves and changes in the reserve comprise:

|  | <i>Revaluation reserve of<br/>buildings</i> | <i>Revaluation reserve of<br/>securities<br/>available-for-sale</i> | <i>Total Revaluation<br/>reserve</i> |
|--|---|---|--------------------------------------|
| <b>December 31, 2014</b>                               | <b>96,447</b>                               | <b>(955)</b>  | <b>95,492</b>                        |
| Unrealized gains from<br>securities available-for-sale | -   | 955   | 955                                  |
| <b>December 31, 2015</b>                               | <b>96,447</b>                               | <b>-</b>  | <b>96,447</b>                        |
| Unrealized gains from<br>revaluation of fixed assets   | 1,246                                       | -   | 1,246                                |
| <b>December 31, 2016</b>                               | <b>97,693</b>                               | <b>-</b>  | <b>97,693</b>                        |

## 21. Commitments and contingencies

### Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. As of December 31, 2016 the Bank is counterpart on several suits on collection of funds. UAH 857 thousand were seized as a security of lawsuit claims. Appeal proceeding on this claim has been scheduled. The management believes that possible liabilities, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

### Taxation and compliance with laws

The Ukrainian legislation applicable to taxation and other operational matters continue to change. The legislation and regulatory acts are not always clearly written and their interpretation is subject to varying interpretations by local, regional and national authorities and other governmental bodies. Instances of inconsistent interpretations by different bodies are not unusual. Management believes that the Bank has complied with all regulations and paid or accrued all taxes that are applicable.

The tax legislation of Ukraine, which is effective or has been enacted at the end of the reporting period, allows interpretations when applied to the transactions and operations of the Bank. In this regard, the tax position defined by the Management and official documentation justifying the tax position may be successfully challenged by the relevant authorities.

There is a risk, that transactions and correctness of interpretations, which were not disputed by the regulating authorities in the past, will be disputed in future. However, this risk is declining in course of time. Determination of amounts and probability of negative consequences from possible unrealized actions is unreasonable.

### Commitments and contingencies

Revocable credit commitments and contingencies as at December 31 are:

|  | <i>2016</i>    | <i>2015</i>    |
|--|----------------|----------------|
| Guarantees   | 195,591        | 116,074        |
| Letters of credit  | 32,298         | 693,546        |
| Avals  | 230            | 126            |
|  | <b>228,119</b> | <b>809,746</b> |
| Cash collateral pledged for letters of credit and guarantees | (121,102)      | (715,193)      |
| Provision for losses on credit related commitments (Note 19) | (327)          | (1,094)        |
| <b>Commitments and contingencies</b>                         | <b>106,690</b> | <b>93,459</b>  |

As at December 31, 2016, The Bank's loan facilities undrawn by customers amounted to UAH 2,256,538 thousand (2015: UAH 1,684,612 thousand). Requests of customers on drawing such facilities are subject to mandatory consent procedure established by the Bank, and the Bank may decline in providing a loan if potential borrower deteriorates his financial standing, or if the customer does not comply with the required loan-related procedures or due to other reasons.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The changes on provisions for losses on credit related commitments are:

|                                   | 2016         | 2015         |
|-----------------------------------|--------------|--------------|
| <b>January 1</b>                  | <b>1,094</b> | <b>-</b>     |
| Charge to/(Decrease of) provision | (872)        | 825          |
| Translation differences           | 105          | 269          |
| <b>December 31</b>                | <b>327</b>   | <b>1,094</b> |

All the operating lease commitments of the Bank are revocable.

### Assets pledged and restricted assets

As at December 31, 2016, amounts due from banks included the guarantee deposit for UAH 14,036 thousand (2015: UAH 10,284 thousand), allocated in one (2015: one) Ukrainian Bank as a collateral for transactions with payment cards of the Bank's customers. The Bank also placed the deposit for UAH 272 thousand (2015: UAH 240 thousand), as a collateral for transactions with international payment systems (Note 7).

As at 31 December 2016, amounts due from banks included balances in one OECD bank in the amount of UAH 91,633 thousand (2015: UAH 83,498 thousand), covering the Bank's obligations as a principal member of the international payment systems (Note 7).

## 22. Interest income and expenses

Interest income and expenses for the year are:

|                            | 2016             | 2015             |
|----------------------------|------------------|------------------|
| <b>Interest income</b>     |                  |                  |
| Loans to customers         | 501,015          | 1,022,792        |
| legal entities             | 429,024          | 916,151          |
| individuals                | 71,991           | 106,641          |
| Securities                 | 40,305           | 6,508            |
| Amounts due from banks     | 2,411            | 4,310            |
|                            | <b>543,731</b>   | <b>1,033,610</b> |
| <b>Interest expenses</b>   |                  |                  |
| Amounts due to customers   | (698,649)        | (709,912)        |
| legal entities             | (191,061)        | (236 197)        |
| individuals                | (507,588)        | (473 715)        |
| Amounts due to banks       | (44,921)         | (98,682)         |
| Subordinated debt          | (13,511)         | (27,610)         |
| Debt securities issued     | (65)             | (3,062)          |
|                            | <b>(757,146)</b> | <b>(839,266)</b> |
| <b>Net interest income</b> | <b>(213,415)</b> | <b>194,344</b>   |

Decrease in interest income on loans to legal entities in 2016 (by UAH 521,777 thousand compared to 2015) stemmed first of all from settlement of non-performing indebtedness by its redemption, sale or write-off. During 2016, the negative impact on interest income from settlement of non-performing indebtedness of the top ten borrowers totaled UAH 154,752 thousand. In addition, acknowledgement of borrowers as bankrupts results in suspension of interest income accrual on loans to such borrowers in accordance to requirements of the law. During 2016, the negative impact on interest income from suspension of interest income accrual for the loans of the top ten borrowers acknowledged as bankrupts totaled UAH 123,407 thousand.

Settlement of non-performing indebtedness allowed to place released funds to less riskier assets and to increase interest income received in fact (statement of cash flows).

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

**23. Net fee and commission income**

Net fee and commission income for the year are:

|  | <b>2016</b>     | <b>2015</b>     |
|--|-----------------|-----------------|
| <b>Fee and commission income</b>       |                 |                 |
| Transactions with payment cards        | 63,972          | 45,362          |
| Payments settlements                   | 57,428          | 55,796          |
| Foreign currency exchange transactions | 19,898          | 84,323          |
| Guarantees and letters of credit       | 4,138           | 2,323           |
| Depository activities                  | 1,514           | 587             |
| Safe rent services                     | 1,498           | 1,360           |
| Services to insurance companies        | 596             | 526             |
| Other                                  | 403             | 245             |
|  | <b>149,447</b>  | <b>190,522</b>  |
| <b>Fee and commission expenses</b>     |                 |                 |
| Transactions with payment cards        | (33,403)        | (23,693)        |
| Payments settlements                   | (15,126)        | (8,733)         |
| Loyalty program fees                   | (9,081)         | (2,778)         |
| Guarantees and letters of credit       | (861)           | (772)           |
| Other                                  | (6)             | (177)           |
|  | <b>(58,477)</b> | <b>(36,153)</b> |
| <b>Net fee and commission income</b>   | <b>90,970</b>   | <b>154,369</b>  |

**24. Other income**

|   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|
| Income from operational lease                   | 6,744         | 4,516         |
| Income from sale of assets held-for-sale        | 1,787         | 2,909         |
| Reimbursement of costs on debt collection       | 1,165         | 232           |
| Income from retirement of fixed assets          | 1,149         | 1,778         |
| Penalties, fines received                       | 581           | 103           |
| Revaluation of non-current assets held-for-sale | 321           | -             |
| Other   | 1,611         | 2,463         |
|   | <b>13,358</b> | <b>12,001</b> |

**25. Administrative and other operating expenses**

|   | <b>2016</b>    | <b>2015</b>    |
|---|----------------|----------------|
| Personnel expenses  | 201,397        | 178,387        |
| Contributions to the Individuals' Deposits Guarantee Fund | 51,332         | 47,397         |
| Rent  | 27,686         | 28,858         |
| Utilities and household expenses                          | 23,074         | 18,769         |
| Debt collection expenses                                  | 23,746         | 6,035          |
| Professional services                                     | 21,283         | 8,347          |
| Communication services                                    | 14,906         | 12,670         |
| Amortization of property, equipment and intangible assets | 14,204         | 16,111         |
| Marketing and advertising                                 | 12,930         | 3,813          |
| Maintenance of property and equipment                     | 9,352          | 11,059         |
| Business trip expenses                                    | 4,430          | 2,649          |
| Losses from impairment of non-current assets              | 4,145          | -              |
| Taxes and others mandatory payments other than income tax | 4,115          | 1,436          |
| Cash collection services                                  | 2,929          | 1,680          |
| Other   | 4,095          | 5,562          |
| <b>Administrative and other operating expenses</b>        | <b>419,624</b> | <b>342,773</b> |

## 26. The basic and diluted profit/ (loss) per share

The basic and diluted profit/ (loss) per share is:

|   | <i>2016</i> | <i>2015</i> |
|---|-------------|-------------|
| Profit/ (Loss) for the year                                     | (556,590)   | 309,065     |
| Average annual number of outstanding ordinary shares (thousand) | 1,236,104   | 696,644     |
| Net basic and diluted profit/ (loss) per share                  | (0.45)      | 0.44        |

During 2016 and 2015, the Bank had no financial instruments, which would result in a dilution of loss per share in the event of their conversion to shares.

During 2016 additional issue of ordinary shares was implemented pursuant to the adopted in December 2015 decision of the Shareholder in the amount of UAH 686,000 thousand. On 31 December 31, 2016 the shares were fully paid

During 2015 additional issue of ordinary shares was implemented pursuant to the adopted in April 2015 decision of the Shareholder in the amount of UAH 250,000 thousand. On December 31, 2015 the shares were fully paid.

## 27. Financial risk management policies

Risks are inherent in the Bank's activities but they are managed through a process of ongoing identification, measurement and monitoring, establishing of the risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for managing the risk exposures within his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process is not applied to following business risks such as changes in the environment, technology and industry. They are controlled through the Bank's strategic planning process.

### Risk management framework

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and provisions for residual risk, to implement controls and to continuously monitor risk levels and adherence to risk limits.

The risk management functions are divided among the Supervisory Board, the Management Board, Assets and Liabilities Management Committee (the "ALCO"), Committee of information security and operational-technological risks, departments that are by their functions designed to manage the Bank's risks, and the Credit Committees of different levels and other collegial bodies.

The risk management functions within the Bank are divided as follows:

#### *Supervisory Board*

The Supervisory Board, including Risk Committee of Supervisory Board is responsible for establishing overall approach to risk management, and the approval of risk management strategy and principles.

#### *Management Board*

The Management Board implements and controls risk management process in the Bank. The Management Board's risk management function comprises development of risk management strategy, as well as the implementation of principles, concept, policies, and risk limits.

#### *Risk management, Corporate and retail businesses risks management*

The aforesaid departments exercise an analytical and methodological function in risk management and are responsible for establishment of risk management procedures for the independent control purposes.

*(Thousands of Ukrainian hryvnias, unless otherwise is indicated)*

*Translation from Ukrainian original*

#### *Committees*

The Large and Small Credit Committees, the ALCO, Committee of information security and operational-technological risks, the Budget Committee and the Tariff Committee are responsible for implementation of the risk management strategy.

#### *Business Units*

Each business unit has a separate independent risk control function, including control over adherence to the limits of the risk exposures and assessment of risks attributable to new products and structured transactions. In addition, business units are responsible for collecting the risk-related complete, reliable and operating information and risk reporting.

#### *Internal Audit*

The Internal Audit and Control Department performs regular audits of the risk management processes in order to review the adequacy of the risk management procedures and their execution. The Internal Audit and Control Department discusses findings from its audits and presents its conclusions and recommendations to the Supervisory and Management Boards.

### **Excessive risk concentration**

Risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The concentrations reflect the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines focused on portfolio diversification. Identified risk concentrations are controlled and managed accordingly.

### **Credit risk**

Credit risk is the risk of a financial loss to the Bank if a borrower or counterparty fails to meet its contractual obligations. The Bank manages its credit risk by establishing risk (limits) in relation to a single counterparty or groups of counterparties with similar business risks, and by monitoring established risk indicators adherence.

Risks inherent in credit related commitments (commitments on unused irrevocable credit lines, letters of credit and guarantees) are similar to risks inherent in loans; they are mitigated using the same procedures and risk control policies.

The carrying amount of the items presented in the statement of financial position (including derivative instruments and excluding the risk mitigation effect of master netting and collateral agreements) corresponds the most closely to the maximum credit risk arising from these items.

The carrying amount of financial instruments carried at fair value reflects the current exposure to credit risk but not the maximum risk exposure, which may arise in future as a result of the changes in their values.

#### *Credit quality by classes of financial asset*

The Bank manages the credit quality of financial assets using its internal credit rating system. The system ensures focused risk management as well as it allows for credit risk exposure comparison by business lines, geographic location and product. The rating system is based on application of certain financial and analytical methods as well as use of observable market data, which represents main source of information for counterparty's risk assessment.

The Bank's management assesses the impairment of loans to customers by evaluating the likelihood of repayment and reimbursement of the amounts advanced based on the analysis of the specific borrowers by the specific significant loans as well as by the groups of loans with the similar terms and risk characteristics. The factors taken into account in evaluating the specific loans include the debt service history, the borrower's current financial position, timeliness of repayments and quality of collateral, schedule of future interest payments, the borrower's industry conditions, etc. In assessing the amount of impairment, management takes into account the expected future principal and interest repayments as well as the proceeds from the sale of collateral, if any. Further, these cash flows are discounted using the original effective interest rate of the loan. The actual repayment of the loan principal and interest depends on the borrowers' ability to generate cash flows from their operations or to obtain alternative financing and may differ from the management's estimates.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The factors taken into account when assessing collective impairment include the historical impairment loss experience, portfolio delinquencies and general economic conditions.

The credit quality analysis of financial asset categories presented in the statement of financial position (without provisions for impairment) made using the Bank's credit rating system as at December 31, 2016 is:

|   | <i>Notes</i> | <i>High rating</i> | <i>Standard rating</i> | <i>Low rating</i> | <i>Loans with evidence of impairment</i> | <i>Total</i>     |
|---|--------------|--------------------|------------------------|-------------------|--|------------------|
| Cash and cash equivalents excluding cash, current accounts with NBU and deposit certificates of the NBU | 6            | 434,726            | -                      | -                 | -  | 434,726          |
| Amounts due from banks  | 7            | 143,944            | -                      | -                 | -  | 143,944          |
| Loans and advances to customers   | 8            | 548,535            | 1,967,047              | 40,979            | 3,589,083                                | 6,145,644        |
| - loans to legal entities   |              | 465,224            | 1,962,101              | 38,970            | 3,122,006                                | 5,588,301        |
| - loans to individuals  |              | 83,311             | 4,946                  | 2,009             | 467,077                                  | 557,343          |
| Securities available-for-sale   | 9            | 441                | -                      | -                 | 31                                       | 472              |
| NBU deposit certificates held-to-maturity in the Bank's portfolio                                       |              | 1,000,656          | -                      | -                 | -  | 1,000,656        |
| Other financial assets  | 11           | 15,455             | 466                    | 31,951            | 38,420                                   | 86,292           |
| <b>Total</b>  |              | <b>2,143,757</b>   | <b>1,967,513</b>       | <b>72,930</b>     | <b>3,627,534</b>                         | <b>7,811,734</b> |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The credit quality analysis of financial asset categories presented in the statement of financial position made using the Bank's credit rating system as at December 31, 2015 is:

|  | <i>Notes</i> | <i>High rating</i> | <i>Standard rating</i> | <i>Low rating</i> | <i>Loans with evidence of impairment</i> | <i>Total</i>     |
|--|--------------|--------------------|------------------------|-------------------|--|------------------|
| Cash and cash equivalents excluding cash and current accounts with NBU | 6            | 193,112            | -                      | -                 | -  | 193,112          |
| Amounts due from banks   | 7            | 143,197            | -                      | -                 | -  | 143,197          |
| Loans and advances to customers  | 8            | 424,473            | 1,639,795              | 296               | 4,397,157                                | 6,461,721        |
| - loans to legal entities  |              | 378,991            | 1,638,264              | -                 | 3,995,538                                | 6,012,793        |
| - loans to individuals   |              | 45,482             | 1,531                  | 296               | 401,619                                  | 448,928          |
| Securities available-for-sale  | 9            | 441                | -                      | -                 | 31                                       | 472              |
| Other financial assets   | 11           | 731,362            | 19,744                 | 3,705             | 1,445                                    | 756,256          |
| NBU deposit certificates held-to-maturity in the Bank's portfolio      |              | 520,456            | -                      | -                 | -  | 520,456          |
| <b>Total</b>   |              | <b>2,013,041</b>   | <b>1,659,539</b>       | <b>4,001</b>      | <b>4,398,633</b>                         | <b>8,075,214</b> |

In the above tables amounts due from banks, loans to customers and derivative financial instruments rated high are the assets whose credit rank is minimal. Counterparties with good financial standing and good debt servicing are rated standard. Low rating comprises assets whose rating is lower than standard, but that were not individually impaired.

The Bank has developed credit quality review procedures aimed on early identification of the potential changes in borrowers' credit standing, including periodical review of the collateral value. The credit quality review allows the Bank to estimate potential loss from the risks faced and take appropriate actions.

The geographic concentration of financial assets and liabilities is as follows:

|   | <i>2016</i>        |                |                                |                    | <i>2015</i>        |                |                                |                    |
|---|--------------------|----------------|--------------------------------|--------------------|--------------------|----------------|--------------------------------|--------------------|
|   | <i>Ukraine</i>     | <i>OECD</i>    | <i>CIS and other countries</i> | <i>Total</i>       | <i>Ukraine</i>     | <i>OECD</i>    | <i>CIS and other countries</i> | <i>Total</i>       |
| <b>Assets</b>   |                    |                |                                |                    |                    |                |                                |                    |
| Cash and cash equivalents   | 354,309            | 430,708        | 1,832                          | 786,849            | 214,152            | 188,872        | 3                              | 403,027            |
| Amounts due from banks  | 14,308             | 91,717         | 35,926                         | 141,951            | 13,924             | 111,596        | 16,732                         | 142,252            |
| Loans and advances to customers                                   | 4,000,583          | -              | 1,053                          | 4,001,636          | 4,653,437          | -              | 877                            | 4,654,314          |
| Securities available-for-sale                                     | 441                | -              | -                              | 441                | 441                | -              | -                              | 441                |
| NBU deposit certificates held-to-maturity in the Bank's portfolio | 1,000,656          | -              | -                              | 1,000,656          | 520,456            | -              | -                              | 520,456            |
| Other financial assets  | 36,613             | -              | 17                             | 36,630             | 35,197             | -              | 699,212                        | 734,409            |
|   | <b>5,406,910</b>   | <b>522,425</b> | <b>38,828</b>                  | <b>5,968,163</b>   | <b>5,437,607</b>   | <b>300,468</b> | <b>716,824</b>                 | <b>6,454,899</b>   |
| <b>Liabilities</b>  |                    |                |                                |                    |                    |                |                                |                    |
| Amounts due to banks  | -                  | -              | 45                             | 45                 | 357,000            | -              | 40                             | 357,040            |
| Amounts due to customers  | 7,392,849          | 32,443         | 16,994                         | 7,442,286          | 6,191,591          | 5,860          | 86,222                         | 6,283,673          |
| Debt securities issued  | 136,354            | -              | -                              | 136,354            | 150,560            | -              | -                              | 150,560            |
| Subordinated debt   | -                  | -              | -                              | -                  | -                  | -              | 672,418                        | 672,418            |
| Other financial liabilities                                       | 59,368             | 3,418          | -                              | 62,786             | 12,576             | -              | -                              | 12,576             |
|   | <b>7,588,571</b>   | <b>35,861</b>  | <b>17,039</b>                  | <b>7,641,471</b>   | <b>6,711,727</b>   | <b>5,860</b>   | <b>758,680</b>                 | <b>7,476,267</b>   |
| <b>Net geographic concentration</b>                               | <b>(2,181,661)</b> | <b>486,564</b> | <b>21,789</b>                  | <b>(1,673,308)</b> | <b>(1,274,120)</b> | <b>294,608</b> | <b>(41,856)</b>                | <b>(1,021,368)</b> |

#### Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or value of financial

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the profitability at risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios are mainly held by the securities department and include positions arising from market making and own open position taking, together with financial assets and liabilities that are managed on a fair value basis.

The overall responsibility for market risk management is vested with the ALCO. The Risk Management Department is responsible for the development of detailed risk management guidelines (subject to review and approval by the Management Board and Supervisory Board) and for the day-to-day monitoring of the compliance with the guidelines.

### Foreign currency risk

Currency risk is the risk that fluctuations in foreign exchange rates will affect the Bank's income or the value of its portfolios of financial instruments.

The Bank holds assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the existing or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and the internally developed methodology.

The policy with regard to open foreign currency positions is restricted by certain maximal exposure thresholds established under the Ukrainian statutory regulations; the NBU strictly monitors the compliance with the regulations on a daily basis.

Foreign currency position of the Bank on monetary assets and liabilities as at December 31, 2016 is:

|  | <i>Ukrainian<br/>hryvnia</i> | <i>US Dollar</i> | <i>Euro</i>     | <i>Other</i>  | <i>Total</i>       |
|--|------------------------------|------------------|-----------------|---------------|--------------------|
| <b>Assets</b>  |                              |                  |                 |               |                    |
| Cash and cash equivalents  | 287,827                      | 156,808          | 336,526         | 5,688         | <b>786,849</b>     |
| Amounts due from banks   | -                            | 105,941          | 19              | 35,991        | <b>141,951</b>     |
| Loans and advances to customers                                      | 987,856                      | 2,714,530        | 299,250         | -             | <b>4,001,636</b>   |
| Securities available-for-sale  | 441                          | -                | -               | -             | <b>441</b>         |
| NBU deposit certificates held-to-maturity<br>in the Bank's portfolio | 1,000,656                    | -                | -               | -             | <b>1,000,656</b>   |
| Other monetary assets  | 31,596                       | 4,278            | 417             | 339           | <b>36,630</b>      |
| <b>Total assets</b>  | <b>2,308,376</b>             | <b>2,981,557</b> | <b>636,212</b>  | <b>42,018</b> | <b>5,968,163</b>   |
| <b>Liabilities</b>   |                              |                  |                 |               |                    |
| Amounts due to banks   | -                            | 37               | 8               | -             | <b>45</b>          |
| Amounts due to customers   | 4,024,400                    | 2,712,578        | 666,536         | 38,772        | <b>7,442,286</b>   |
| Debt securities issued   | -                            | 121,049          | 15,305          | -             | <b>136,354</b>     |
| Other monetary liabilities   | 44,583                       | 9,574            | 7,771           | 858           | <b>62,786</b>      |
| <b>Total liabilities</b>   | <b>4,068,983</b>             | <b>2,843,238</b> | <b>689,620</b>  | <b>39,630</b> | <b>7,641,471</b>   |
| <b>Net long / (short) balance sheet<br/>position</b>                 | <b>(1,760,607)</b>           | <b>138,319</b>   | <b>(53,408)</b> | <b>2,388</b>  | <b>(1,673,308)</b> |
| Off-balance sheet position   | 657,900                      | (652,581)        | -               | -             | <b>5,319</b>       |
| <b>Net long / (short) currency position</b>                          | <b>(1,102,707)</b>           | <b>(514,262)</b> | <b>(53,408)</b> | <b>2,388</b>  | <b>(1,667,989)</b> |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

Foreign currency position of the Bank on monetary assets and liabilities as at December 31, 2015 is:

|  | <i>Ukrainian<br/>hryvnia</i> | <i>US Dollar</i> | <i>Euro</i>     | <i>Other</i>  | <i>Total</i>       |
|--|------------------------------|------------------|-----------------|---------------|--------------------|
| <b>Assets</b>  |                              |                  |                 |               |                    |
| Cash and cash equivalents  | 161,139                      | 219,217          | 19,427          | 3,244         | <b>403,027</b>     |
| Amounts due from banks   | 1,787                        | 123,958          | 45              | 16,462        | <b>142,252</b>     |
| Loans and advances to customers                                      | 1,349,491                    | 3,022,922        | 281,901         | -             | <b>4,654,314</b>   |
| Securities available-for-sale  | 441                          | -                | -               | -             | <b>441</b>         |
| NBU deposit certificates held-to-maturity<br>in the Bank's portfolio | 520,456                      | -                | -               | -             | <b>520,456</b>     |
| Other monetary assets  | 32,134                       | 436,537          | 265,634         | 104           | <b>734,409</b>     |
| <b>Total assets</b>  | <b>2,065,448</b>             | <b>3,802,634</b> | <b>567,007</b>  | <b>19,810</b> | <b>6,454,899</b>   |
| <b>Liabilities</b>   |                              |                  |                 |               |                    |
| Amounts due to banks   | 357,000                      | 33               | 7               | -             | <b>357,040</b>     |
| Amounts due to customers   | 2,884,586                    | 3,026,740        | 352,537         | 19,810        | <b>6,283,673</b>   |
| Debt securities issued   | 53                           | 127,272          | 23,235          | -             | <b>150,560</b>     |
| Subordinated debt  | -                            | 672,418          | -               | -             | <b>672,418</b>     |
| Other monetary liabilities   | 9,247                        | 2,379            | 891             | 59            | <b>12,576</b>      |
| <b>Total liabilities</b>   | <b>3,250,886</b>             | <b>3,828,842</b> | <b>376,670</b>  | <b>19,869</b> | <b>7,476,267</b>   |
| <b>Net long / (short) balance sheet<br/>position</b>                 | <b>(1,185,438)</b>           | <b>(26,208)</b>  | <b>190,337</b>  | <b>(59)</b>   | <b>(1,021,368)</b> |
| Off-balance sheet position   | 932,433                      | (639,156)        | (256,987)       | (420)         | <b>35,870</b>      |
| <b>Net long / (short) currency position</b>                          | <b>(253,005)</b>             | <b>(665,364)</b> | <b>(66,650)</b> | <b>(479)</b>  | <b>(985,498)</b>   |

As at December 31, a 10 percent depreciation of the Ukrainian hryvnia against the following currencies would have had increased (decreased) pre-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular, interest rates, remain constant:

|           | <i>2016</i> | <i>2015</i> |
|-----------|-------------|-------------|
| US Dollar | (51,426)    | (66,536)    |
| Euro      | (5,341)     | (6,665)     |

As at December 31, a 10 percent appreciation of the Ukrainian hryvnia against the above currencies would have had an equal but opposite effect on the pre-tax profit in the amounts shown above, on the basis that all other variables remain constant.

### Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect future cash flows or fair value of financial instruments.

Interest rate risk is measured by the extent to impact of changes in market interest rates on interest margin and net interest income. To the extent the maturity structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, the Bank continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, the Bank resets interest rates on both assets and liabilities based on current market conditions and mutual consent with its counterparties by formal amending the original agreements and setting forth the new interest rate.

The ALCO and the Credit Committee of the Bank are responsible for interest rate risk management. The ALCO establishes the principal guidelines and approaches to interest rate risk management, including maximum loan and minimum borrowing rates by products, classes of customers and maturities. The Credit Committee is responsible for ensuring compliance with the guidelines set by the ALCO. The Bank manages interest rate risk using the gap analysis method, whereby the difference or gap between assets and liabilities sensitive to interest rate fluctuations is determined and analysed.

The average effective interest rates of the major interest bearing assets and liabilities are:

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

|   | December 31, 2016    |              |       | 31 December 31, 2015 |              |       |
|---|----------------------|--------------|-------|----------------------|--------------|-------|
|   | Ukrainian<br>hryvnia | US<br>Dollar | Euro  | Ukrainian<br>hryvnia | US<br>Dollar | Euro  |
| Loans and advances to customers                         | 20.6%                | 11.2%        | 11.3% | 22.4%                | 10.8%        | 13.9% |
| Deposit certificates of the<br>National Bank of Ukraine | 12.0%                | -            | -     | 19.0%                | -            | -     |
| Other financial assets                                  | -                    | -            | -     | -                    | 0.3%         | 0.5%  |
| Amounts due to banks                                    | -                    | -            | -     | 23.5%                | -            | -     |
| Current accounts of customers                           | 6.2%                 | 1.6%         | 0.4%  | 8.4%                 | 2.4%         | 2.3%  |
| Term deposits of customers                              | 18.8%                | 7.8%         | 7.3%  | 22.3%                | 10.5%        | 10.1% |
| Debt securities issued                                  | -                    | 7.6%         | 2.4%  | 22.4%                | 9.7%         | 9.9%  |
| Subordinated debt                                       | -                    | -            | -     | -                    | 0.1%         | -     |

If market environment changes, the Bank's management, under the terms of the loan agreements, has the right to change interest rates on loans to customers. Moreover, the Bank regularly revises interest rates on amounts due to customers depending on market structure. The Bank calculates the absolute interest risk or changes in net interest income under the scenario of parallel shift in the yield curve. As at December 31, 2016 increase in interest rates by 1%, with all other variables remained constant, would decrease net interest income for the year by UAH 5,852 thousand (2015: decrease by UAH 7,978 thousand). A 1% decrease in interest rates would have had an equal but opposite effect on the net interest income by the amount shown above, on the basis that all other variables remain constant.

### Liquidity risk

Liquidity risk arises in the course of general funding activities as well as from management of open positions. It includes both the risk of being unable to raise the funding with appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in a due time as well as the risk of the Bank's failure to meet its obligations when due in normal course of business or under unforeseen circumstances.

Management's approach to managing liquidity is to ensure that the Bank has reasonably sufficient liquidity to meet its liabilities when due, under both normal conditions and extraordinary circumstances, without incurring unjustifiable losses or damaging the Bank's reputation.

The Bank actively keeps a diversified and stable funding sources comprising of debt securities issued, long-term and short-term loans from other banks, core corporate and retail customer deposits, as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions, buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, buys and sells securities, regulates its interest rate policy and controls expenses. In managing its liquidity, the Bank considers the obligatory reserve placement requirements set by the NBU, depending on the level of funds deposited by the customers.

The Bank has to comply with the mandatory liquidity ratios set by the NBU, including by the Action Plan on elimination of breaches of economic ratios approved by the decision of the Bank's Shareholder and by the resolution of the Board of the National Bank of Ukraine on a daily basis.

Liabilities repayable on demand are treated as if redemption claim would have been made at the earliest date possible. However, the Bank expects that majority of the customers will not claim for redemption at such earliest possible date and, consequently, the table does not reflect expected cash flows calculated by the Bank based on the information on deposits redemption in past periods.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The Bank's undiscounted financial liabilities grouped by their residual contractual maturities and other undiscounted cash outflows as at December 31, 2016 are:

|                                  | <i>Up to 3 months</i> | <i>From 3 months to<br/>1 year</i> | <i>From 1 to 5<br/>years</i> | <i>Over 5<br/>years</i> | <i>Total</i>     |
|----------------------------------|-----------------------|------------------------------------|------------------------------|-------------------------|------------------|
| <b>Financial liabilities</b>     |                       |                                    |                              |                         |                  |
| Amounts due to banks             | 45                    | -                                  | -                            | -                       | 45               |
| Amounts due to customers         | 4,545,178             | 2,889,414                          | 110,900                      | -                       | 7,545,492        |
| Debt securities issued           | 101,169               | 37,456                             | -                            | -                       | 138,625          |
| Other financial liabilities      | 62,786                | -                                  | -                            | -                       | 62,786           |
| <b>Undiscounted cash outflow</b> | <b>4,709,178</b>      | <b>2,926,870</b>                   | <b>110,900</b>               | <b>-</b>                | <b>7,746,948</b> |

The category "Up to 3 months" above also includes amounts on demand.

The table below presents a consolidated analysis of the contractual maturities of financial liabilities as at December 31, 2015. The table shows undiscounted liabilities repayable according to the contract. Payments made to notice are deemed to be paid immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay under the agreement, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history. In addition, a significant portion of current accounts estimated by management, as conventionally remains stable. The maturity analysis does not reflect the historical stability of current liabilities in the past. Previously, their implementation took place during the period that is higher than indicated in the table above. These balances are included in the table above as payment amounts due during the period of up to 3 months.

The Bank's undiscounted financial liabilities grouped by their residual contractual maturities and other undiscounted cash outflows as at December 31, 2015 are:

|                                  | <i>Up to 3 months</i> | <i>From 3 months to<br/>1 year</i> | <i>From 1 to 5<br/>years</i> | <i>Over 5<br/>years</i> | <i>Total</i>     |
|----------------------------------|-----------------------|------------------------------------|------------------------------|-------------------------|------------------|
| <b>Financial liabilities</b>     |                       |                                    |                              |                         |                  |
| Amounts due to banks             | 20,956                | 330,959                            | 108,327                      | -                       | 460,242          |
| Amounts due to customers         | 4,891,833             | 1,555,960                          | 28,015                       | -                       | 6,475,808        |
| Debt securities issued           | 153,993               | 1,487                              | -                            | -                       | 155,480          |
| Subordinated debt                | 416                   | 51                                 | 269                          | 672,082                 | 672,818          |
| Other financial liabilities      | 11,482                | -                                  | -                            | -                       | 11,482           |
| <b>Undiscounted cash outflow</b> | <b>5,078,680</b>      | <b>1,888,457</b>                   | <b>136,611</b>               | <b>672,082</b>          | <b>7,775,830</b> |

The category "Up to 3 months" above also includes amounts on demand.

Timing of cash flows on assets and liabilities and the ability to replace, at acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity position of the Bank and its exposure to changes in interest and foreign exchange rates.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

Payment periods on financial assets and liabilities, net of allowance for impairment, as at December 31, 2016 are:

|   | <i>Up to 3<br/>months</i> | <i>From 3<br/>months to<br/>1 year</i> | <i>From 1 to 5<br/>years</i> | <i>Over 5 years</i> | <i>Total</i>       |
|---|---------------------------|--|------------------------------|---------------------|--------------------|
| <b>Assets</b>   |                           |  |                              |                     |                    |
| Cash and cash equivalents   | 786,849                   | -                                      | -                            | -                   | <b>786,849</b>     |
| Amounts due from banks  | 141,951                   | -                                      | -                            | -                   | <b>141,951</b>     |
| Loans and advances to customers                                   | 442,163                   | 1,777,421                              | 1,781,008                    | 1,044               | <b>4,001,636</b>   |
| Securities available-for-sale                                     | -                         | -                                      | -                            | 441                 | <b>441</b>         |
| NBU deposit certificates held-to-maturity in the Bank's portfolio | 1,000,656                 | -                                      | -                            | -                   | <b>1,000,656</b>   |
| Other financial assets  | 36,630                    | -                                      | -                            | -                   | <b>36,630</b>      |
| <b>Total assets</b>   | <b>2,408,249</b>          | <b>1,777,421</b>                       | <b>1,781,008</b>             | <b>1,485</b>        | <b>5,968,163</b>   |
| <b>Liabilities</b>  |                           |  |                              |                     |                    |
| Amounts due to banks  | 45                        | -                                      | -                            | -                   | <b>45</b>          |
| Amounts due to customers  | 4,553,365                 | 2,790,853                              | 98,068                       | -                   | <b>7,442,286</b>   |
| Debt securities issued  | 100,109                   | 36,245                                 | -                            | -                   | <b>136,354</b>     |
| Other financial liabilities                                       | 62,786                    | -                                      | -                            | -                   | <b>62,786</b>      |
| <b>Total liabilities</b>  | <b>4,716,305</b>          | <b>2,827,098</b>                       | <b>98,068</b>                | <b>-</b>            | <b>7,641,471</b>   |
| Liquidity gap for the period                                      | (2,308,056)               | (1,049,677)                            | 1,682,940                    | 1,485               | <b>(1,673,308)</b> |
| <b>Cumulative liquidity gap</b>                                   | <b>(2,308,056)</b>        | <b>(3,357,733)</b>                     | <b>(1,674,739)</b>           | <b>(1,673,308)</b>  |                    |

The category "Up to 3 months" above also includes amounts on demand.

The Bank's liquidity risk management includes assessment of balances on current accounts, which are considered as stable funds. As of December 31, 2016, stable customer funds reached UAH 3,269,078 thousand. As of December 31, 2016, the excess of short-term assets over short-term liabilities of the Bank, calculated taking into account the stable clients' funds with uncertain maturity, totaled UAH 88,654 thousand.

The table demonstrates loans and amounts due from clients including overdue indebtedness apart from formed reserves. However, overdue indebtedness is allocated to maturity period of 1-5 years in accordance to judgement of the Bank regarding possible terms of its collection. The table demonstrates financial obligations to be redeemed in accordance to a contract. Repayments, to be made at receipt of notice, are deemed as subject to immediate payment. However, the Bank expects that many customers will not request repayment on the date the Bank could have made the payment under the agreement and the table does not reflect the expected cash flows indicated by the Bank's deposits held in past periods. In addition, the management estimates a significant portion of balances on current accounts, as relatively stable balances. The maturity analysis does not reflect the historical stability of current liabilities in the past. Previously, their disposal happened during the period, which is longer than indicated in the table above. These balances are included in the table above, as amounts due to be paid in the period of up to 3 months.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

Payment periods on financial assets and liabilities, net of allowance for impairment, as at December 31, 2015 are:

|   | <i>Up to 3<br/>months</i> | <i>From 3<br/>months to<br/>1 year</i> | <i>From 1 to 5<br/>years</i> | <i>Over 5 years</i> | <i>Total</i>       |
|---|---------------------------|--|------------------------------|---------------------|--------------------|
| <b>Assets</b>   |                           |  |                              |                     |                    |
| Cash and cash equivalents   | 403,027                   | -                                      | -                            | -                   | <b>403,027</b>     |
| Amounts due from banks  | 51,227                    | 90,785                                 | 240                          | -                   | <b>142,252</b>     |
| Loans and advances to customers                                   | 136,743                   | 2,036,791                              | 2,477,243                    | 3,537               | <b>4,654,314</b>   |
| Securities available-for-sale                                     | -                         | -                                      | -                            | 441                 | <b>441</b>         |
| NBU deposit certificates held-to-maturity in the Bank's portfolio | 520,456                   | -                                      | -                            | -                   | <b>520,456</b>     |
| Other financial assets  | 734,409                   | -                                      | -                            | -                   | <b>734,409</b>     |
| <b>Total assets</b>   | <b>1,845,862</b>          | <b>2,127,576</b>                       | <b>2,477,483</b>             | <b>3,978</b>        | <b>6,454,899</b>   |
| <b>Liabilities</b>  |                           |  |                              |                     |                    |
| Amounts due to banks  | 40                        | 267,750                                | 89,250                       | -                   | <b>357,040</b>     |
| Amounts due to customers  | 4,420,423                 | 1,489,776                              | 373,474                      | -                   | <b>6,283,673</b>   |
| Debt securities issued  | 149,120                   | 1,440                                  | -                            | -                   | <b>150,560</b>     |
| Subordinated debt   | -                         | -                                      | -                            | 672,418             | <b>672,418</b>     |
| Other financial liabilities                                       | 12,576                    | -                                      | -                            | -                   | <b>12,576</b>      |
| <b>Total liabilities</b>  | <b>4,582,159</b>          | <b>1,758,966</b>                       | <b>462,724</b>               | <b>672,418</b>      | <b>7,476,267</b>   |
| Liquidity gap for the period                                      | (2,736,297)               | 368,610                                | 2,014,759                    | (668,440)           | <b>(1,021,368)</b> |
| <b>Cumulative liquidity gap</b>                                   | <b>(2,736,297)</b>        | <b>(2,367,687)</b>                     | <b>(352,928)</b>             | <b>(1,021,368)</b>  |                    |

The category “Up to 3 months” above also includes amounts on demand.

In accordance with the Ukrainian legislation and contractual terms of the loans, the Bank has the right to demand the repayment of loans from customers prior to their contractual maturity if the borrowers' financial position deteriorates, or if the borrowers do not fulfill their contractual obligations as well as in some other cases.

### Operating risk

Operating risk is the risk arisen as a result of the system error, human errors, fraud or external events. Where the control system malfunctions, the operating risks can damage the reputation and have legal implications or lead to financial losses. The Bank cannot assume that all operating risks are eliminated, however, by applying internal controls and by keeping track and responding to the potential risks, the Bank can manage such risks. The control system provides effective distribution of duties, access rights, approval and reconciliation procedures, personnel training as well as assessment procedures, including internal audit.

## 28. Related party disclosures

The Bank grants loans to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions. Terms of transactions with related parties are established at the time of transaction.

Related parties comprise the Shareholder of the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by the Shareholder, by key management personnel or by their close family members. The key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and include the members of the Management Board and the Supervisory Board.

Entities are not considered to be related, only because they have a director or other member of key management personnel common with the Bank or because a member of key management personnel has a significant impact on the other entity.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

Management of the Bank believes that the terms of transactions with related parties were similar to those offered to non-related parties.

The Bank's transactions with the related parties and balances with related parties as at December 31, 2016:

|  | <i>Parent<br/>company</i> | <i>The<br/>largest<br/>members<br/>(sharehold<br/>ers) of the<br/>Bank</i> | <i>Companie<br/>s under<br/>joint<br/>control</i> | <i>Key<br/>manageme<br/>nt<br/>personnel</i> | <i>Associate<br/>d<br/>compani<br/>es</i> | <i>Other<br/>related<br/>parties</i> | <i>Total</i>  |
|--|---------------------------|--|---|--|---|--------------------------------------|---------------|
| Loans to customers<br>(contractual interest<br>rates: UAH – 44.9%)                                       | -                         | -  | -   | 30   | -   | -                                    | <b>30</b>     |
| Securities available-for-<br>sale (10-12% share)   | -                         | -  | -   | -  | 13  | -                                    | <b>13</b>     |
| Provision for<br>impairment of securities<br>available-for-sale  | -                         | -  | -   | -  | (13)                                      | -                                    | <b>(13)</b>   |
| Other financial assets   | -                         | -  | 1   | -  | -   | -                                    | <b>1</b>      |
| Amounts due to<br>customers<br>(contractual interest<br>rates: UAH – 4.0%,<br>USD – 2.5%; EUR –<br>3.7%) | 759                       | 16,525   | 29,118  | 2,431  | -   | 11,680                               | <b>60,513</b> |
| Other liabilities  | 2                         | -  | 180   | -  | -   | -                                    | <b>182</b>    |

Balances with related parties as at December 31, 2015:

|  | <i>Parent<br/>company</i> | <i>The<br/>largest<br/>members<br/>(sharehold<br/>ers) of the<br/>Bank</i> | <i>Companie<br/>s under<br/>joint<br/>control</i> | <i>Key<br/>manageme<br/>nt<br/>personnel</i> | <i>Associate<br/>d<br/>compani<br/>es</i> | <i>Other<br/>related<br/>parties</i> | <i>Total</i>   |
|--|---------------------------|--|---|--|---|--------------------------------------|----------------|
| Loans to customers<br>(contractual interest<br>rates: UAH – 44%)   | -                         | -  | -   | 15   | -   | 88                                   | <b>103</b>     |
| Provision for<br>impairment of loans and<br>amounts due from<br>clients                                  | -                         | -  | -   | (1)  | -   | (17)                                 | <b>(18)</b>    |
| Securities available-for-<br>sale (10-12% share)   | -                         | -  | -   | -  | 13  | -                                    | <b>13</b>      |
| Provision for<br>impairment of securities<br>available-for-sale  | -                         | -  | -   | -  | (13)                                      | -                                    | <b>(13)</b>    |
| Other financial assets   | -                         | -  | 3   | -  | -   | -                                    | <b>3</b>       |
| Amounts due to<br>customers<br>(contractual interest<br>rates: UAH – 3.4%,<br>USD – 2.9%; EUR –<br>4.0%) | 869                       | 15,607   | 18,253  | 2,850  | -   | 37,712                               | <b>75,291</b>  |
| Subordinated loan<br>(contractual interest<br>rate: USD – 0.1%)  | 672,418                   | -  | -   | -  | -   | -                                    | <b>672,418</b> |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The Bank's transactions with the related parties for the period ended December 31, 2016

|  | <i>Parent company</i> | <i>The largest members (shareholders) of the Bank</i> | <i>Companies under joint control</i> | <i>Key management personnel</i> | <i>Associated companies</i> | <i>Other related parties</i> | <i>Total</i> |
|--|-----------------------|---|--------------------------------------|---------------------------------|-----------------------------|------------------------------|--------------|
| Interest income  | -                     | -   | -                                    | 2                               | -                           | 12                           | 14           |
| Interest expense   | (73)                  | (211)   | (663)                                | (217)                           | -                           | (471)                        | (1,635)      |
| Recovery of provision for impairment of loans and amounts due from clients | -                     | -   | -                                    | 1                               | -                           | 17                           | 18           |
| Commission income  | -                     | -   | 61                                   | 72                              | -                           | 45                           | 178          |
| Administrative and other operational income                                | -                     | -   | -                                    | (52,897)                        | -                           | -                            | (52,897)     |

The Bank's transactions with the related parties for the period ended December 31, 2015

|   | <i>Parent company</i> | <i>The largest members (shareholders) of the Bank</i> | <i>Companies under joint control</i> | <i>Key management personnel</i> | <i>Associated companies</i> | <i>Other related parties</i> | <i>Total</i> |
|---|-----------------------|---|--------------------------------------|---------------------------------|-----------------------------|------------------------------|--------------|
| Interest income   | -                     | -   | -                                    | 23                              | -                           | 6                            | 29           |
| Interest expense  | (27,625)              | (107)   | (105)                                | (142)                           | -                           | (563)                        | (28,542)     |
| Accrual of provision for impairment of loans and amounts due from clients | -                     | -   | -                                    | -                               | -                           | (17)                         | (17)         |
| Commission income   | -                     | 1   | 14                                   | 63                              | -                           | 3                            | 81           |
| Administrative and other operational income                               | -                     | -   | -                                    | (37,195)                        | -                           | -                            | (37,195)     |

Other rights and obligations on transactions with related parties as of December 31, 2016

|  | <i>Parent company</i> | <i>The largest members (shareholders) of the Bank</i> | <i>Companies under joint control</i> | <i>Key management personnel</i> | <i>Associated companies</i> | <i>Other related parties</i> | <i>Total</i> |
|--|-----------------------|---|--------------------------------------|---------------------------------|-----------------------------|------------------------------|--------------|
| Potential credit commitments (revocable) | -                     | -   | -                                    | 291                             | -                           | 150                          | 441          |

Other rights and obligations on transactions with related parties as of December 31, 2015

|  | <i>Parent company</i> | <i>The largest members (shareholders) of the Bank</i> | <i>Companies under joint control</i> | <i>Key management personnel</i> | <i>Associated companies</i> | <i>Other related parties</i> | <i>Total</i> |
|--|-----------------------|---|--------------------------------------|---------------------------------|-----------------------------|------------------------------|--------------|
| Potential credit commitments (revocable) | -                     | -   | -                                    | 205                             | -                           | 62                           | 267          |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The total amount of loans received and repaid by related parties within the period ended on December 31, 2016:

|   | <i>Parent company</i> | <i>The largest members (shareholders) of the Bank</i> | <i>Companies under joint control</i> | <i>Key management personnel</i> | <i>Associated companies</i> | <i>Other related parties</i> | <i>Total</i> |
|---|-----------------------|---|--------------------------------------|---------------------------------|-----------------------------|------------------------------|--------------|
| Amount of loans received by related parties | -                     | -   | -                                    | 628                             | -                           | -                            | <b>628</b>   |
| Amount of loans repaid by related parties   | -                     | -   | -                                    | 613                             | -                           | 88                           | <b>701</b>   |

The total amount of loans received and repaid by related parties within the period ended on December 31, 2015:

|   | <i>Parent company</i> | <i>The largest members (shareholders) of the Bank</i> | <i>Companies under joint control</i> | <i>Key management personnel</i> | <i>Associated companies</i> | <i>Other related parties</i> | <i>Total</i> |
|---|-----------------------|---|--------------------------------------|---------------------------------|-----------------------------|------------------------------|--------------|
| Amount of loans received by related parties | -                     | -   | -                                    | 290                             | -                           | 88                           | <b>378</b>   |
| Amount of loans repaid by related parties   | -                     | -   | -                                    | 298                             | -                           | -                            | <b>298</b>   |

The remuneration of the key management personnel for the year ended December 31, 2016 is represented by short-term employee benefits amounting to UAH 40,513 thousand (2015: UAH 36,280 thousand). The remuneration of Supervisory Board members for the year ended December 31, 2016 amounted to UAH 10,365 thousand (2015: remuneration to Supervisory Board members was not paid).

## 29. Segment reporting

For management purposes, the Bank is organized into three operating segments:

*Corporate banking.* Providing loans, opening deposits and serving current accounts of legal entities and institutional customers, providing guaranties and avals, opening a letters of credit, supporting foreign economic activity.

*Retail banking.* Serving deposits of individuals', and providing consumer loans, overdrafts, credit card and fund transfer facilities.

*Investment banking.* Trade transactions with securities and foreign currency, transactions with derivative instruments, attraction and placement of funds on interbank market, investments to other financial instruments.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The information on income and expenses as well as assets and liabilities of the Bank's operating segments for the year ended December 31, 2016 is:

|  | <i>Corporate<br/>banking</i> | <i>Retail<br/>banking</i> | <i>Investment<br/>banking</i> | <i>Unallocated</i> | <i>Total</i>     |
|--|------------------------------|---------------------------|-------------------------------|--------------------|------------------|
| <b>External customers</b>  |                              |                           |                               |                    |                  |
| Interest income  | 429,024                      | 71,991                    | 42,716                        | -                  | <b>543,731</b>   |
| Fee and commission income  | 59,596                       | 88,316                    | 1,535                         | -                  | <b>149,447</b>   |
| Result from transactions with<br>available-for-sale securities   | -                            | -                         | 1,531                         | -                  | <b>1,531</b>     |
| Net income/ (loss) from<br>transactions with derivative<br>instruments   | -                            | -                         | 119,844                       | -                  | <b>119,844</b>   |
| Net gains/(losses) arising from<br>foreign currencies  | -                            | -                         | 79,278                        | (29,298)           | <b>49,980</b>    |
| Result from the revaluation of<br>investment property  | -                            | -                         | -                             | 356,107            | <b>356,107</b>   |
| Other income   | 1,541                        | 1,298                     | -                             | 10,519             | <b>13,358</b>    |
|  | <b>490,161</b>               | <b>161,605</b>            | <b>244,904</b>                | <b>337,328</b>     | <b>1,233,998</b> |
| Interest expenses  | (187,601)                    | (521,098)                 | (48,447)                      | -                  | <b>(757,146)</b> |
| Fee and commission expenses  | (910)                        | (42,576)                  | (14,991)                      | -                  | <b>(58,477)</b>  |
| Recovery of / (Charge to)<br>provision for impairment of<br>loans and advances to<br>customers and amounts due<br>from banks | (543,256)                    | (102,436)                 | (506)                         | -                  | <b>(646,198)</b> |
| Other charges to provision for<br>impairment   | 872                          | -                         | (24,345)                      | (3,397)            | <b>(26,870)</b>  |
| Administrative and other<br>operating expenses   | (58,447)                     | (155,661)                 | (11,491)                      | (194,025)          | <b>(419,624)</b> |
| <b>Segment results</b>   | <b>(299,181)</b>             | <b>(660,166)</b>          | <b>145,124</b>                | <b>139,906</b>     | <b>(674,317)</b> |
| Income tax benefit   | -                            | -                         | -                             | 117,727            | <b>117,727</b>   |
| <b>Profit/(loss) for the year</b>  | <b>(299,181)</b>             | <b>(660,166)</b>          | <b>145,124</b>                | <b>257,633</b>     | <b>(556,590)</b> |
| Segment assets   | 3,853,476                    | 174,567                   | 1,948,233                     | 1,894,922          | <b>7,871,198</b> |
| Segment liabilities  | 2,930,008                    | 4,714,520                 | 9,029                         | 28,752             | <b>7,682,309</b> |
| Additions to property and<br>equipment   |                              |                           |                               |                    | <b>15,025</b>    |

Unallocated net gains from transactions in foreign currencies represent the revaluation of foreign currency items in the statement of financial position, as well as other income not related to principal operating activities of the Bank. Other unallocated expenses represent general administrative expenses of the Bank and other expenses related to impairment of assets.

Management monitors the operating results of its business units separately for the purpose of making decisions about funds allocation and performance assessment. The segment results are determined differently to those presented in financial statements. Income tax management is performed under general conditions and are not allocated to the operating segments.

In 2016 and 2015, the Bank did not receive any revenue from a single external customer or counterparty, which would account for 10% per cent or more of the total revenue.

The Bank operates in Ukraine and nearly all of its 2016 and 2015 revenues were earned from Ukrainian counterparties. As at December 31, 2016 all tangible assets of the Bank were located in Ukraine (2015: 100%), including on the territory of the ATO zone – 0.2% (2015: 0.3%), on the territory of Crimea – 0.9% (2015: 1.3%). The geographical concentration of financial assets and liabilities is presented in Note 27.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

The information on revenue and profit as well as assets and liabilities of the Bank's operating segments for the year ended 31 December 2015 is:

|  | <i>Corporate<br/>banking</i> | <i>Retail<br/>banking</i> | <i>Investment<br/>banking</i> | <i>Unallocated</i> | <i>Total</i>     |
|--|------------------------------|---------------------------|-------------------------------|--------------------|------------------|
| <b>External customers</b>  |                              |                           |                               |                    |                  |
| Interest income  | 916,217                      | 106,652                   | 10,741                        | -                  | <b>1,033,610</b> |
| Fee and commission income  | 109,555                      | 80,811                    | 156                           | -                  | <b>190,522</b>   |
| Gains less losses from securities<br>available-for sale  | -                            | -                         | 13,429                        | -                  | <b>13,429</b>    |
| Net income/ (loss) from<br>transactions with derivative<br>instruments   | -                            | -                         | 172,794                       | -                  | <b>172,794</b>   |
| Net gains/(losses) arising from<br>foreign currencies  | -                            | -                         | 37,851                        | (83,365)           | <b>(45,514)</b>  |
| Result from the revaluation of<br>investment property  | -                            | -                         | -                             | 63,509             | <b>63,509</b>    |
| Other income   | 483                          | 66                        | -                             | 11,452             | <b>12,001</b>    |
|  | <b>1,026,255</b>             | <b>187,529</b>            | <b>234,971</b>                | <b>(8,404)</b>     | <b>1,440,351</b> |
| Interest expenses  | (236,197)                    | (476,772)                 | (98,687)                      | (27,610)           | <b>(839,266)</b> |
| Fee and commission expenses  | -                            | -                         | (36,153)                      | -                  | <b>(36,153)</b>  |
| Recovery of / (Charge to)<br>provision for impairment of<br>loans and advances to<br>customers and amounts due<br>from banks | 147,221                      | (120,731)                 | (986)                         | -                  | <b>25,504</b>    |
| Other charges to provision for<br>impairment   | (825)                        | -                         | (69)                          | (17,605)           | <b>(18,499)</b>  |
| Administrative and other<br>operating expenses   | (35,190)                     | (163,174)                 | (9,713)                       | (134,696)          | <b>(342,773)</b> |
| <b>Segment results</b>   | <b>901,264</b>               | <b>(573,148)</b>          | <b>89,363</b>                 | <b>(188,315)</b>   | <b>229,164</b>   |
| Income tax benefit   | -                            | -                         | -                             | 79,901             | <b>79,901</b>    |
| <b>Profit/(loss) for the year</b>  | <b>901,264</b>               | <b>(573,148)</b>          | <b>89,363</b>                 | <b>(108,414)</b>   | <b>309,065</b>   |
| Segment assets   | 4,497,848                    | 162,875                   | 1,794,275                     | 1,108,802          | <b>7,563,800</b> |
| Segment liabilities  | 2,581,087                    | 3,867,864                 | 359,694                       | 696,922            | <b>7,505,567</b> |
| Additions to property and<br>equipment   |                              |                           |                               |                    | <b>16,663</b>    |

### 30. Derivative financial instruments

The fair value of derivative financial instruments, accounted as part of assets or obligations, is given below in the table.

As of December 31, 2016 The Bank had FX swap contracts under following conditions:

|                                     | <i>Principal at fair<br/>value of assets<br/>held-to-maturity</i> | <i>Principal at fair<br/>value of assets<br/>held-to-transfer</i> | <i>Positive fair<br/>value of<br/>assets</i> | <i>Separate fair<br/>value of<br/>obligations</i> |
|-------------------------------------|---|---|--|---|
| UAH placement/USD attraction        | 657,786   | 654,487   | 8,857  | 5,558   |
| <b>Total derivative instruments</b> | <b>657,786</b>  | <b>654,487</b>  | <b>8,857</b>                                 | <b>5,558</b>                                      |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

As of December 31, 2015 The Bank had FX swap contracts under following conditions:

|                                     | <i>Principal at fair<br/>value of assets<br/>held-to-maturity</i> | <i>Principal at fair<br/>value of assets<br/>held-to-transfer</i> | <i>Positive fair<br/>value of<br/>assets</i> | <i>Separate fair<br/>value of<br/>obligations</i> |
|-------------------------------------|---|---|--|---|
| UAH placement/USD attraction        | 774,159   | 750,750   | 23,409                                       | -   |
| UAH placement/EUR attraction        | 158,098   | 153,119   | 4,979  | -   |
| USD placement/EUR attraction        | 209,980   | 211,930   | -  | 1,950   |
| <b>Total derivative instruments</b> | <b>1,142,237</b>  | <b>1,115,799</b>  | <b>28,388</b>                                | <b>1,950</b>                                      |

### 31. Fair value measurement

The Bank applies the following hierarchic methods of measurement to determine and disclose the fair values of the financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, available as of the date of appraisal.
- Level 2: all input data of measurement models, having a material impact on fair values recognized in the financial statements, are based on observable market data, either directly or indirectly.
- Level 3: all input data of measurement models, having a material impact on fair values recognized in the financial statements, are not based on observable market data.

The Bank did not have any movements between level 1 and 2 hierarchy levels as of December 31, 2016 or 2015.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy:

|  |                   | Fair value measurement using |           |           |           |
|--|-------------------|------------------------------|-----------|-----------|-----------|
| December 31, 2016                                      | Date of valuation | Level 1                      | Level 2   | Level 3   | Total     |
| <b>Assets measured at fair value</b>                   |                   |                              |           |           |           |
| Other financial assets                                 |                   |                              |           |           |           |
| Derivative financial assets                            | 31.12.2016        | -                            | 8,857     | -         | 8,857     |
| Fixed assets   |                   |                              |           |           |           |
| Buildings, facilities                                  | 01.11.2016        | -                            | 189,008   | -         | 189,008   |
| Investment property                                    | 01.11.2016        | -                            | 1,276,502 | -         | 1,276,502 |
| <b>Assets for which fair values are disclosed</b>      |                   |                              |           |           |           |
| Cash and cash equivalents                              | 31.12.2016        | -                            | -         | 786,849   | 786,849   |
| Amounts due from banks                                 | 31.12.2016        | -                            | -         | 141,951   | 141,951   |
| Loans and advances to customers                        | 31.12.2016        | -                            | -         | 4,001,636 | 4,001,636 |
| Securities available-for-sale                          | 31.12.2016        |                              | -         | 441       | 441       |
| Deposit certificates of the NBU held-to-maturity       | 31.12.2016        |                              |           | 1,000,656 | 1,000,656 |
| Other financial assets                                 | 31.12.2016        | -                            | -         | 27,773    | 27,773    |
| <b>Liabilities at fair value</b>                       |                   |                              |           |           |           |
| Other financial liabilities                            |                   |                              |           |           |           |
| Derivative financial liabilities                       | 31.12.2016        | -                            | 5,558     | -         | 5,558     |
| <b>Liabilities for which fair values are disclosed</b> |                   |                              |           |           |           |
| Amounts due to banks                                   | 31.12.2016        | -                            | -         | 45        | 45        |
| Amounts due to customers                               | 31.12.2016        | -                            | -         | 7,442,286 | 7,442,286 |
| Debt securities issued                                 | 31.12.2016        | -                            | -         | 136,354   | 136,354   |
| Other financial liabilities                            | 31.12.2016        | -                            | -         | 57,228    | 57,228    |

|  |                   | Fair value measurement using |         |           |           |
|--|-------------------|------------------------------|---------|-----------|-----------|
| December 31, 2015                                | Date of valuation | Level 1                      | Level 2 | Level 3   | Total     |
| Assets measured at fair value                    |                   |                              |         |           |           |
| Other financial assets                           |                   |                              |         |           |           |
| Derivative financial assets                      | 31.12.2015        | -                            | 28,388  | -         | 28,388    |
| Property, equipment and intangible assets        | 01.11.2015        | -                            | 195,604 | -         | 195,604   |
| Investment property                              | 01.11.2015        | -                            | 319,597 | -         | 319,597   |
| Assets for which fair values are disclosed       |                   |                              |         |           |           |
| Cash and cash equivalents                        | 31.12.2015        | -                            | -       | 403,027   | 403,027   |
| Amounts due from banks                           | 31.12.2015        | -                            | -       | 142,252   | 142,252   |
| Loans and advances to customers                  | 31.12.2015        | -                            | -       | 4,654,314 | 4,654,314 |
| Securities available-for-sale                    | 31.12.2015        | -                            | 441     | -         | 441       |
| Deposit certificates of the NBU held-to-maturity | 31.12.2015        | -                            | -       | 520,456   | 520,456   |
| Other financial assets                           | 31.12.2015        | -                            | -       | 706,021   | 706,021   |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

**Liabilities at fair value**

Other financial liabilities

Derivative financial

liabilities

31.12.2015

-

1,950

-

1,950

**Liabilities for which fair values are disclosed**

Amounts due to banks

31.12.2015

-

-

357,040

357,040

Amounts due to

customers

31.12.2015

-

-

6,283,673

6,283,673

Debt securities issued

31.12.2015

-

-

150,560

150,560

Subordinated debt

31.12.2015

-

-

672,418

672,418

Other financial liabilities

31.12.2015

-

-

10,626

10,626

The methods and assumptions used to determine fair value were following:

The management determined that fair value of funds, short-term financial assets and liabilities as well as other assets and liabilities approximately equals their carrying value, as the above instruments have short repayment period.

*Fixed assets (buildings) and investment property* The Bank engages independent appraisers to determine fair value of buildings and investment property, while the method of sales comparison is used based on prices of transactions with objects of similar character, location and state.

*Securities available-for-sale.* Securities available-for-sale, evaluated by any valuation method, primarily consist of debt securities and unquoted equity shares. These assets are valued using models, which sometimes incorporate only data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and the geographical jurisdiction in which the investee operates.

*Derivatives.* Derivatives, valued by the valuation methods using market observable inputs, mainly represent interest rate swaps, currency swaps and forward foreign exchange contracts. Appraisal methodology includes model of forward and swap pricing, providing discounting of revaluation results (calculations of present value). The model combines input data on forward and swap exchange rates.

*Loans and amounts due from customers.* The Bank evaluates loans and amounts due from clients, accounts receivable based on such parameters, as interest rates, risk factors, individual creditworthiness of borrower and forms allowance in reliance on the above evaluation for accounting of expected losses deriving from these assets.

*Amounts due to customers.* Fair value of amounts due to customers is defined by the method of discounted cash flow with use of discount rate reflecting cost of customers' funds for the Bank by the end of reporting period. The own credit risk of default on liabilities as of December 31, 2016 is evaluated as minor.

## 32. Presentation of financial instruments by assessment categories

Financial assets under assessment categories as at December 31, 2016:

|  | <i>Loans and receivables</i> | <i>Financial assets at fair value through profit or loss</i> | <i>Financial assets available-for-sale</i> | <i>Total</i>     |
|--|------------------------------|--|--|------------------|
| Cash and cash equivalents                        | 786,849                      | -  | -  | 786,849          |
| Amounts due from banks                           | 141,951                      | -  | -  | 141,951          |
| Loans and advances to customers                  | 4,001,636                    | -  | -  | 4,001,636        |
| Securities available-for-sale                    | -                            | -  | 441  | 441              |
| Deposit certificates of the NBU held-to-maturity | 1,000,656                    | -  | -  | 1,000,656        |
| Other financial assets                           | 27,773                       | 8,857  | -  | 36,630           |
| <b>Total financial assets</b>                    | <b>5,958,865</b>             | <b>8,857</b>   | <b>441</b>                                 | <b>5,968,163</b> |

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

Financial assets under assessment categories as at December 31, 2015:

|   | <i>Loans and<br/>receivables</i> | <i>Financial assets at<br/>fair value through<br/>profit or loss</i> | <i>Financial<br/>assets<br/>available-for-<br/>sale</i> | <i>Total</i>     |
|---|----------------------------------|--|---|------------------|
| Cash and cash equivalents                           | 403,027                          | -  | -   | 403,027          |
| Amounts due from banks                              | 142,252                          | -  | -   | 142,252          |
| Loans and advances to<br>customers                  | 4,654,314                        | -  | -   | 4,654,314        |
| Securities available-for-sale                       | -                                | -  | 441   | 441              |
| Deposit certificates of the<br>NBU held-to-maturity | 520,456                          | -  | -   | 520,456          |
| Other financial assets                              | 706,021                          | 28,388   | -   | 734,409          |
| <b>Total financial assets</b>                       | <b>6,426,070</b>                 | <b>28,388</b>  | <b>441</b>  | <b>6,454,899</b> |

### 33. Capital management

#### *Regulatory capital*

The Bank maintains an actively managed capital base to cover risks inherent in the business, to provide compliance with external capital requirements and to support high credit rating and capital adequacy ratios required for operations and maximizing wealth of shareholders. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord (approved in July 1988 and amended in November 2005, considering among other the inclusion of market risk) and the ratios established by the NBU in supervising the Bank.

The Bank manages its capital structure adjusting it in line with changes in the economic conditions and the risks attributable to its activities. The Bank did not make any changes in the objectives, policies and processes from the previous years.

#### *NBU capital adequacy ratio*

The NBU sets capital level requirements for banks and monitors their compliance. Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (the statutory capital adequacy ratio) above the established minimum level. If the Bank does not maintain or sufficiently increase its capital base in line with the increase in its risk-weighted assets, it may violate the set capital adequacy benchmarks, which could lead to the sanctions from the NBU side and could affect the results of operations and the financial position.

Following the capitalization program approved by the Supervisory Board on February 24, 2015 the Shareholder completed the planned actions on the Bank's capital increase within 2015-2016, in particular: capital was increased in April 2015 and in February 2016 by UAH 250,000 thousand and UAH 686,000 thousand respectively.

For the period until January 1, 2019, the National Bank of Ukraine set the schedule for increasing the minimum level of regulatory capital adequacy, namely as at October 1, 2016 at least 5%, as at January 1, 2018 - not less than 7% and as at January 1, 2019 - not less than 10%. On April 28, 2016 the National Bank of Ukraine approved the updated capitalization/restructuring program developed by the Bank in accordance with the schedule of increase in the minimum level of capital adequacy.

#### *Capital adequacy ratio under the Basel Capital Accord requirements*

As at December 31 the Bank's capital adequacy ratio, calculated in accordance with the Basel Capital Accord, with subsequent amendments incorporating market risks, and on the basis of the amounts presented in these financial statements, comprised:

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Translation from Ukrainian original

|                                     | 2016             | 2015             |
|-------------------------------------|------------------|------------------|
| <b>Tier 1 capital</b>               |                  |                  |
| Share capital                       | 1,544,666        | 858,666          |
| Accumulated loss                    | (1,471,148)      | (914,558)        |
| Additional paid-in capital          | 17,678           | 17,678           |
| <b>Total tier 1 capital</b>         | <b>91,196</b>    | <b>(38,214)</b>  |
| <b>Tier 2 capital</b>               |                  |                  |
| Revaluation reserve                 | 97,693           | -                |
| Allowable subordinated debt         | -                | -                |
| <b>Total tier 2 capital</b>         | <b>97,693</b>    | <b>-</b>         |
| <b>Total regulatory capital</b>     | <b>188,889</b>   | <b>(38,214)</b>  |
| <b>Total risk-weighted assets</b>   | <b>6,794,662</b> | <b>7,550,797</b> |
| <b>Capital adequacy ratios</b>      |                  |                  |
| Tier 1 capital adequacy ratio       | 1.3%             | -                |
| <b>Total capital adequacy ratio</b> | <b>2.8%</b>      | <b>-</b>         |

As of December 31 capital adequacy ratio, calculated in accordance with requirements of the National Bank of Ukraine, comprised:

|   | 2016             | 2015             |
|---|------------------|------------------|
| <b>Tier 1 capital</b>                         |                  |                  |
| Share capital                                 | 1,521,000        | 835,000          |
| Accumulated loss                              | (1,516,493)      | (801,187)        |
| Additional paid-in capital                    | 17,678           | -                |
| <b>Total tier 1 capital</b>                   | <b>22,185</b>    | <b>(33,813)</b>  |
| <b>Tier 2 capital</b>                         |                  |                  |
| Loan loss reserve (for I category of quality) | -                | 293              |
| Revaluation reserve                           | 97,693           | 96,447           |
| Allowable subordinated debt                   | -                | 33,813           |
| <b>Total tier 2 capital</b>                   | <b>97,693</b>    | <b>130,553</b>   |
| <b>Deduction from capital</b>                 | <b>(330)</b>     | <b>(330)</b>     |
| <b>Total regulatory capital</b>               | <b>44,040</b>    | <b>67,295</b>    |
| <b>Total risk-weighted assets</b>             | <b>6,628,840</b> | <b>7,296,373</b> |
| <b>Open currency position</b>                 | <b>587,774</b>   | <b>438,740</b>   |
| <b>Regulatory capital adequacy ratio</b>      | <b>0.61%</b>     | <b>0.87%</b>     |
| <b>Tier 1 capital adequacy ratio</b>          | <b>0.31%</b>     | <b>0.44%</b>     |

In accordance with the Action Plan, the Bank should reach capital adequacy ratio, calculated pursuant to with requirements of the National Bank of Ukraine, at the level of 6.11% of risk-weighted assets by the end of 2016 (2015: 6.90%). As of December 31, 2016, the capital adequacy ratio of the Bank totaled 0.61% (2015: 0.87%).

On June 9, 2017, the Shareholder of the Bank provided funds amounting to USD 30 million as collateral for non-performing assets to cover credit risk and to support financial position and going concern of the Bank that resulted in increase of regulatory capital (H1) to UAH 402 million and capital adequacy ratio to 5.42%.

Besides, the Shareholder of the Bank took decision on increase of authorized capital of the Bank by private placement of additional shares of the existing nominal value in the amount UAH 1,199 million resulting in exceeding regulatory capital adequacy ratio above the minimum level defined by the National Bank of Ukraine.

### 34. Events after the reporting date

On May 31, 2017, the Shareholder concluded with the Bank the surety agreement, guaranteeing execution of liabilities under the loan agreements with troublesome borrowers for USD 30 million, and placed the respective amount in the Bank. This helped to dissolve large loan loss reserves and increase own and regulatory capital respectively. The Surety

Agreement with the Bank's Shareholder envisages its early termination, if the placed funds are used to buy the Bank's shares within a capital increase.

On June 21, 2017, the Shareholder took decision about increase of the Bank's capital by private placement of additional shares of the existing nominal value amounting to UAH 1,199 million. The mentioned capital increase will result in pre-scheduled fulfillment of obligations under the Restructuring Plan by the Bank and Shareholder.

Since the beginning of 2017, banks calculate credit risk in accordance with Regulation on calculation of credit risk on active banking operations No 351 dated June 30, 2016 approved by the resolution of the National bank of Ukraine. The above Regulation is based on Basel principles of bank supervision providing improved approaches to assessment of expected losses from credit risk. Since introduction of regulation the improvement of requirements to credit risk calculation is going on changing assessment of impact from its appliance on the main indicators of the Bank. The final calculation of maximum credit risk together with introduction of IFRS 9 in 2018 may influence capital adequacy in future periods. The resolution of the Board of National Bank of Ukraine No 126-рн dated 07.03.2017 about introduction of changes to some regulatory acts of the National Bank of Ukraine updated the resolution the Board of National Bank of Ukraine No 260 dated 15.04.2015 on diagnostic testing of banks. Banks, which fail to meet regulatory capital adequacy (H2) due to increase in credit risk, should secure implementation of capitalization (restructuring) programs approved by the National bank of Ukraine or have possibility to bring ratios in accordance to regulatory requirements gradually.

Chairman of the Management Board

Olena Malynska

Financial Director

Sergiy Volkov

Chief Accountant

Ruslan Chudakivskyy

June 23, 2017