Public Joint Stock Company
West Finance and Credit Bank
Financial Statements

Year ended 31 December 2016
Together with Independent Auditor's Report

Translation from Ukrainian original

Contents

Independent auditor's report

Notes to the financial statements

Building a better working world

Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ua

ТОВ «Ернст енд Янг Аудиторські послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської
Палати України: 3516

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory Board of
Public Joint Stock Company "WEST FINANCE AND CREDIT BANK"

Opinion

We have audited the financial statements of Public Joint Stock Company "WEST FINANCE AND CREDIT BANK" (the Bank), which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

EY
Building a better working world

Allowance for Impairment of Loans and Advances to Customers

The assessment of the amount of allowance for impairment of loans to customers is a key area of judgement for management. The identification of impairment and the determination of the recoverable amount involves certain assumptions and analysis of various factors including the financial standing of borrowers, expected future cash flows and fair value of collateral.

The use of different assumptions could produce significantly different estimates of impairment of loans and advances to customers. Taking into account the magnitude of the amounts of loans and advances to customers, which account for 72% of total assets, and also a certain level of subjectivity of judgments, we identified the estimation of the provision for impairment as the key audit matter.

Our audit procedures included assessment of the methodology used by the Bank in identifying impairment events and calculating the allowance impairment, testing of input data and analysis of the assumptions. For allowance for impairment of loans with specific impairment, we tested the assumptions underlying the impairment identification and quantification including analysis of the financial performance of customers, forecasts of future cash flows and valuation of collateral. For allowance for impairment of loans without specifically identified impairment, which was calculated on a collective basis, we analyzed the underlying models and assessed appropriateness and accuracy of inputs to those models.

We performed procedures in relation to the information disclosed in Notes 4, 9 and 26 to the financial statements.

Other Information

Other information consists of the information included in the Annual Report of Public Joint Stock Company "WEST FINANCE AND CREDIT BANK" other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of Public Joint Stock Company "WEST FINANCE AND CREDIT BANK" is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board 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.

The Supervisory Board is 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 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 the Supervisory Board 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.

EY
Building a better working world

We also provide the Supervisory Board 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 the Supervisory Board, 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.

The partner in charge of the audit resulting in this independent auditor's report is Yulia Studynska.

Ernst & Young Audit Services LLC

Kyiv, Ukraine

4 April 2017

м. Київ * Україна * Товариство з обмеженою відповідальністю
№1
«Ернст енд Янг Аудиторські Послуги»
Ідентифікаційний код 33306921

O.M. Svistich
General Director

Y.S. Studynska
Auditor's certificate series B № 0131
valid till 24 December 2019

PJSC "CREDITWEST BANK"
Statement of Financial Position
As at 31 December 2016

(in thousand of Ukrainian hryvnias)

	Notes	2016	2015
Assets			
Cash and cash equivalents	6	235,022	365,048
Securities: held to maturity	7	60,039	150,101
Due from banks	8	3,073	2,952
Loans and advances to customers	9	842,875	523,721
Investment property	10	1,402	1,341
Property, equipment and intangible assets	11	17,556	17,207
Other assets	12	10,647	7,621
Total assets		**1,170,614**	**1,067,991**
Liabilities			
Due to banks	13	293,139	222,229
Due to customers	14	524,879	536,758
Income tax payable		941	4,523
Deferred tax liability	24	85	395
Other liabilities	15	3,122	3,933
Subordinated debt	16	92,858	117,475
Total liabilities		**915,024**	**885,313**
Equity			
Share capital	17	136,470	103,013
Unregistered share capital		42,004	-
Share premium		2,902	2,902
Additional paid in capital		3,474	4,426
Retained earnings		70,740	72,337
Total equity		**255,590**	**182,678**
Total liabilities and equity		**1,170,614**	**1,067,991**

Signed and authorised for issuance

Mr. Adnan Anacali — Chairman of the Management Board

Mr. Igor Kuzmenko — Chief Accountant

4 April 2017

м. Київ * Україна * Публічне акціонерне товариство "ВЕСТ ФАЙНЕНС ЕНД КРЕДИТ БАНК" Ідентифікаційний код 34575675

The notes set out on pages 5 to 37 form an integral part of these financial statements

PJSC "CREDITWEST BANK"
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016
(in thousand of Ukrainian hryvnias)

	Notes	2016	2015
Interest income	19	113,329	90,574
Interest expense	19	(57,639)	(47,538)
Net interest income	19	**55,690**	**43,036**
Fee and commission income	20	25,424	19,386
Fee and commission expense	20	(2,924)	(1,961)
Gains less losses arising from dealing in foreign currencies		18,650	31,382
Gains less losses from foreign currency revaluation		847	6,166
Recovery of/ (charge for) impairment of loans and advances	23	626	1,637
Recovery of impairment of other assets	23	109	2,535
Other operating income	21	6,802	1,766
Administrative and other operating expenses	22	(67,558)	(60,439)
Profit before tax		**37,666**	**43,508**
Income tax expense	24	(6,758)	(7,365)
Net profit and total comprehensive income		**30,908**	**36,143**
Earnings per share (in Ukrainian hryvnias per share)	17	**0.00035**	**0.00041**

Signed and authorised for issuance

Mr. Adnan Anacali — Chairman of the Management Board

Mr. Igor Kuzmenko — Chief Accountant

4 April 2017

Україна * м. Київ * "ВЕСТ ФАЙНЕНС ЕНД КРЕДИТ БАНК" Ідентифікаційний код 34575675 Публічне акціонерне товариство

PJSC "CREDITWEST BANK"
Statement of Cash Flows
For the year ended 31 December 2016
(in thousand of Ukrainian hryvnias)

	Notes	2016	2015
Operating activities			
Interest received		111,829	89,591
Interest paid		(53,100)	(48,442)
Fees and commissions received		25,316	19,375
Fees and commissions paid		(2,924)	(1,961)
Net receipts from dealing in foreign currencies		37,119	31,382
Other operating income received		6,912	1,766
General administrative and other operating expenses		(69,992)	(57,395)
Income tax paid		(10,650)	(3,854)
Cash flows from operating activities before change in operating assets and liabilities		**44,510**	**30,462**
Changes in operating assets and liabilities			
Change in due from banks		2,932	3,170
Change in loans and advances		(284,367)	49,455
Change in other assets		3,501	(3,009)
Change in due to banks		49,098	69,371
Change in due to customers		(33,705)	97,984
Change in other liabilities		256	2,465
Cash flows from / (used in) operating activities		**(217,775)**	**249,898**
Investing activities			
Acquisition of property equipment and intangible assets		(3,808)	(16,540)
Proceeds from disposals of property equipment and intangible assets		-	1,526
(Purchase)/repayment of held to maturity securities		90,000	(150,000)
Cash flows from / (used in) investing activities		**86,192**	**(165,014)**
Financing activities			
Other borrowed funds received		130,967	119,689
Repayment of other borrowed funds		(130,967)	(54,557)
Proceeds from issue of share capital		42,004	-
Redemption of subordinated loans		(41,815)	-
Cash flows from financing activities		**189**	**65,132**
Effect of changes in foreign exchange rate on cash and cash equivalents		1,368	17,964
Net increase / (decrease) in cash and cash equivalents		**(130,026)**	**167,980**
Cash and cash equivalents as at 1 January		**365,048**	**197,068**
Cash and cash equivalents as at 31 December	6	**235,022**	**365,048**

Signed and authorised for issuance

Mr. Adnan Anaçali — Chairman of the Management Board

Mr. Igor Kuzmenko — Chief Accountant

4 April 2017

Україна * м. Київ * Публічне акціонерне товариство "ВЕСТ ФАЙНЕНС ЕНД КРЕДИТ БАНК" Ідентифікаційний код 34575675

PJSC "CREDITWEST BANK"
Statement of Changes in Equity
For the year ended 31 December 2016

(in thousand of Ukrainian hryvnias)

	Share capital	Share premium	Additional paid-in capital	Retained earnings	Total
Balance as at 1 January 2015	**88,045**	**2,902**	**4,426**	**51,162**	**146,535**
Issue of share capital	14,968	-	-	(14,968)	-
Total comprehensive income	-	-	-	36,143	**36,143**
Balance as at 31 December 2015	**103,013**	**2,902**	**4,426**	**72,337**	**182,678**
Issue of share capital (Note 17)	33,457	-		(33,457)	-
Additional paid-in capital	42,004	-	(952)	952	**42,004**
Total comprehensive income	-	-	-	30,908	**30,908**
Balance as at 31 December 2016	**178,474**	**2,902**	**3,474**	**70,740**	**255,590**

Signed and authorised for issuance

Mr. Adnan Anacali — Chairman of the Management Board

Mr. Igor Kuzmenko — Chief Accountant

4 April 2017

Україна м. Київ «ВЕСТ ФАЙНЕНС ЕНД КРЕДИТ БАНК» Публічне акціонерне товариство Ідентифікаційний код 34575675

1 Background

Organization and operations

Public Joint Stock Company "West Finance and Credit Bank" (further - the Bank) was established as the closed joint stock company according to Ukrainian legislation and registered by the National Bank of Ukraine (the NBU) on 4 October 2006. In January 2009, the Bank was reorganised into open joint-stock company. In January 2011, the Bank was re-registered in the form of a public joint stock company.

The principal activities of the Bank are lending, deposits taking, cash and settlement operations with securities and foreign exchange as well as other services. The Bank's activities are regulated by the NBU.

The head office is located at 4A A1, Leontovycha St., Kyiv, Ukraine.

As at 31 December 2016, the Bank had one branch and 82 employees (2015: 1 branch and 81 employees).

The ultimate controlling party of the Bank is ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ which as at 31 December 2016 owns 100% of shares of the Bank.

2 Operating environment of the Bank

The Bank conducts its operations in Ukraine. 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, high inflation, and significant imbalances in the public finance and foreign trade.

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. The Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country.

The weakness of the national currency (UAH), which experienced more than triple devaluation against US dollar and 2.5 times devaluation against Euro since the beginning of 2014, combined with cross border settlement restrictions, negative external trade balance, along with continued volatility in the country's traditional export commodity markets, and high inflation represent key risks to the stabilisation of the Ukrainian operating environment in the near future. The continued support from the IMF and other international donors is contingent upon the mentioned above structural reforms sustaining momentum.

The known and estimable effects of the above factors on the financial position and performance of the Bank in the reporting period have been taken into account in preparing these financial statements.

The Bank's management monitors the developments in the current environment and taking actions where appropriate to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Bank's financial position and performance in a manner not currently determinable.

3 Basis of preparation

General

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) on the historical cost basis except for derivative financial instruments presented in other assets and investment property, which are stated at fair value.

Functional and presentation currency

The financial statements are presented in Ukrainian hryvnia, which is the Bank's functional and presentation currency.

4 Critical accounting estimates and judgments in applying accounting policies

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 judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management of the Bank also makes certain judgements, apart from those involving estimates, in the process of applying the accounting policies. Judgements 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 amount of assets and liabilities within the next financial year include:

Impairment losses on loans and receivables

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

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

Note 9 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment losses.

5 Summary of significant accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 1 – «Disclosure Initiative»

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank as the Bank does not apply the consolidation exception.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 «Non-current Assets Held for Sale and Discontinued Operations»

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. These changes have no impact on the Bank`s financial statements.

IFRS 7 «Financial Instruments: Disclosures»

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. These changes have no impact on the Bank`s financial statements.

(a) Foreign currency translation

The Ukrainian hryvnia is the Bank’s functional currency as it is the currency of the primary economic environment in which the Bank operates. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss and other comprehensive income as gains less losses from foreign currency revaluation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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

Currency	31 December 2016	31 December 2015
US dollar	27.19	24.00
EUR	28.42	26.22

(b) Financial instruments

Classification

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

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

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

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

Financial instruments at fair value through profit or loss comprise derivative financial instruments which mainly relate to forward exchange contracts.

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 management:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables comprise loans and advances, financial receivables, balances due from banks, mandatory reserves with the NBU and cash and cash equivalents.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intention and ability to hold to maturity, other than those that:

- management upon initial recognition designates as at fair value through profit or loss
- management designates as available-for-sale or
- meet the definition of loans and receivables.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, 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 the financial asset or liability.

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

- loans and receivables that are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method and
- investments in 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 de-recognition, are measured at amortized cost.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. 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 repayments discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss or equity (if financial assets or liabilities originated with the shareholders acting in their capacity as shareholders) as gains or losses on origination of financial instrument at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expenses are recorded in profit or loss using the effective interest method.

Fair value measurement principles

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, or until the transaction is closed out.

Gains or 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 a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is de recognized or impaired, and through the amortization process.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(c) Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and advances and other receivables (loans and receivables). Management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and 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.

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant and individually or collectively for loans and advances that are not individually significant. If no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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 is little 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.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Non-financial assets

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

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

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Provisions for other credit related commitment are included in other liabilities.

(d) Property, equipment and intangible assets

Property equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Depreciation and amortization commences from the date an asset is ready for use. The estimated useful lives are as follows:

Furniture and equipment	5 years
Motor vehicles	5 years
Intangible assets	3 years

Expenditures for leasehold improvements are recognized as assets and charged to expenses on a straight-line basis over the shorter of their economic life or the period of the applicable lease.

(e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business or for the use in production or supply of goods or services or for administrative purposes.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

(f) Leases

Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership, are classified as expenses when incurred.

(g) Income and expense recognition

Interest and similar income and interest expense and similar charges are recognized in profit or loss on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense is recognized on an accrual basis. Other fees, commission and other income are recognized when the corresponding service is provided/received.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

(h) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or other comprehensive income.

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

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

A deferred tax asset is 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 assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost for these contributions is recognized in profit or loss when contributions are due and is included in salaries and employee benefits as part of administrative and other operating expenses.

(j) Cash and cash equivalents

Cash and cash equivalents include cash, balances with the National Bank of Ukraine and balances due from banks with original contractual maturity within three months.

(k) Offsetting

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

(l) Segment reporting

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

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy. There are no customers from which revenues exceed 10% of total external revenue.

(m) New standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments

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

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.
IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 Leases insurance contracts within the scope of IFRS 4 Insurance Contracts and financial instruments and other contractual rights and obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets.

Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

• The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.

• The classification of a share-based payment transaction with net settlement features for withholding tax obligations.

• The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Bank.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS *39 Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

(in thousand of Ukrainian hryvnias)

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Bank.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a nonmonetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

6 Cash and cash equivalents

Cash and cash equivalents as at 31 December are as follows:

	2016	**2015**
Cash	9,476	6,788
Balances with the NBU	15,673	27,098
Current accounts placed with other banks	209,873	331,162
Total	**235,022**	**365,048**

As at 31 December 2016, cash balances with the NBU include minimum mandatory balance that the Bank is required to maintain. The estimated amount of minimum mandatory balance as at 31 December 2016 is UAH 10,140 thousand (2015: UAH 7,734 thousand). The Bank considers these mandatory balances with the NBU as cash and cash equivalents.

The following table represents analysis of current accounts in other banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent as at 31 December 2016:

(in thousand of Ukrainian hryvnias)

	2016	2015
Current accounts:		
BBB- to A+	175,964	323,860
BB- to BB+	5,083	12
CC- to CC+	28,826	-
CCC- to CCC+	-	7,290
	209,873	**331,162**

As at 31 December 2016, two largest balances on current accounts placed with other banks amount to UAH 203,466 thousand or 96.9% of the gross exposure of current accounts placed with other banks (2015: UAH 323,698 thousand or 97.7%).

7 Securities: held to maturity

Held to maturity securities are presented by deposit certificates of the NBU, which bear interest rates of 12% and mature in January 2017. As at 31 December 2016, held to maturity securities are neither impaired, nor past due.

8 Due from banks

As at 31 December 2016, due to banks are presented by pledged guarantee deposit for payment system services with contractual maturity over three months placed with one bank with "CC- to CC+" rating based on Standard and Poor's ratings (S&P) or their equivalent (2015: two banks, "CCC- to CCC+"). As at 31 December 2016 and 2015 amounts due from banks are neither impaired, nor past due.

9 Loans and advances

Loans and advances as at 31 December are as follows:

	2016	2015
Corporate	843,303	525,524
Retail	1,609	860
Total loans gross	**844,912**	**526,384**
Allowance for impairment (Note 23)	(2,037)	(2,663)
Total	**842,875**	**523,721**

(a) Significant credit risk concentration

As at 31 December 2016, the amount of loans and advances to ten largest groups of related borrowers comprised UAH 572,331 thousand, and represents 67.9% of total gross loans and advances (2015: UAH 409,035 thousand and 77.71%).

(in thousand of Ukrainian hryvnias)

(b) Loan impairment

Loan impairment as at 31 December 2016 is as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans				
Loans with specific impairment	77,587	(1,395)	76,192	1.80%
Loans without specifically identified impairment	765,716	(118)	765,598	0.02%
Total corporate loans	**843,303**	**(1,513)**	**841,790**	**0.18%**
Retail loans				
Loans with specific impairment	524	(524)	-	100.0%
Loans without specifically identified impairment	1,085	-	1,085	0.0%
Total retail loans	**1,609**	**(524)**	**1,085**	**32.57%**
Total corporate and retail loans	**844,912**	**(2,037)**	**842,875**	**0.24%**

Loan impairment as at 31 December 2015 is as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans				
Loans with specific impairment	59,473	(1,916)	57,557	3.2%
Loans without specifically identified impairment	466,051	(125)	465,926	0.03%
Total corporate loans	**525,524**	**(2,041)**	**523,483**	**0.4%**
Retail loans				
Loans with specific impairment	622	(622)	-	100.0%
Loans without specifically identified impairment	238	-	238	0.0%
Total retail loans	**860**	**(622)**	**238**	**72%**
Total corporate and retail loans	**526,384**	**(2,663)**	**523,721**	**0.5%**

(c) Collateral

The following table provides information on collateral as at 31 December by type of collateral. The table shows the amounts of secured loans rather than the fair value of collateral.

	2016	2015
Real estate	591,416	454,090
Motor vehicles	130,534	27,036
Equipment	49,622	36,672
Deposit	68,800	7,430
Unsecured	4,540	1,156
Total	**844,912**	**526,384**

The Bank's lending activities are conducted in Ukraine. The ability of the borrowers to repay their debt is dependent on a number of factors including the overall financial health of the individual borrowers and the continued development of the Ukrainian economy.

(in thousand of Ukrainian hryvnias)

Although collateral can be an important mitigation of credit risk it is the Bank's policy to lend on the basis of the customer's capacity to repay rather than rely primarily on the value of collateral offered. Depending on the customer's standing and the type of product loans may be provided without collateral.

Effect of collateral as at 31 December 2016 is as follows:

	Over-collateralized assets		**Under-collateralized assets**		**Assets uncovered**	
	Carrying value net of allowance	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**
Corporate loans	805,661	1,525,752	34,545	29,865	1,584	-
Retail loans	51	474	-	-	1,034	-
Total	**805,712**	**1,526,226**	**34,545**	**29,865**	**2,618**	**-**

Effect of collateral as at 31 December 2015 is as follows:

	Over-collateralized assets		**Under-collateralized assets**		**Assets uncovered**	
	Carrying value net of allowance	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**
Corporate loans	484,977	1,104,187	37,527	33,731	979	-
Retail loans	110	951	-	-	128	-
Total	**485,087**	**1,105,138**	**37,527**	**33,731**	**1,107**	**-**

(d) Credit quality of the loan portfolio

As at 31 December 2016, estimated difference between the Bank's actual impairment losses on commercial loans with specific impairment and what they would have been without any collateral is UAH 78,313 thousand (2015: UAH 64,255 thousand).

Quality of loans and advances as at 31 December 2016 is as follows:

	Gross loans	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans and advances				
Not overdue	841,771	(117)	841,654	0.01%
Overdue	1,532	(1,396)	136	91.12%
Total corporate loans and advances	**843,303**	**(1,513)**	**841,790**	**0.18%**
Retail loans and advances				
Not overdue	1,085	-	1,085	0.00%
Overdue	524	(524)	-	100.00%
Total retail loans and advances	**1,609**	**(524)**	**1,085**	**32.57%**

(in thousand of Ukrainian hryvnias)

Quality of loans and advances as at 31 December 2015 is as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans and advances				
Not overdue	523,874	(568)	523,306	0.11%
Overdue	1,650	(1,473)	177	89.27%
Total corporate loans and advances	**525,524**	**(2,041)**	**523,483**	**0.39%**
Retail loans and advances				
Not overdue	130	-	130	0.00%
Overdue	730	(622)	108	85.21%
Total retail loans and advances	**860**	**(622)**	**238**	**72.26%**

(e) Corporate loans by industry

Corporate loans by industry as at 31 December are as follows:

	2016	2015
Trade	344,608	250,862
Agriculture	235,785	55,306
Production	152,852	163,148
Financial services	91,978	33,258
Real estate	5,096	9,079
Construction	1,396	77
Car rent	339	9,744
Other	11,249	4,050
Total	**843,303**	**525,524**

10 Investment property

Movement in investment property during 2016 is as follows:

	2016
Fair value of investment property at 1 January	**1,341**
Sale	-
Revaluation	61
Fair value of investment property at 31 December	**1,402**

Movement in investment property during 2015 is as follows:

	2015
Fair value of investment property at 1 January	**4,497**
Sale	(1,372)
Revaluation	(1,784)
Fair value of investment property at 31 December	**1,341**

Gain on revaluation of investment property in 2016 in amount of UAH 61 thousand is recognized within other operating income (Note 21). Loss on revaluation of investment property in 2015 in amount of UAH 1,784 thousand is recognized within administrative and operating expenses (Note 22).

(in thousand of Ukrainian hryvnias)

11 Property, equipment and intangible assets

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

	Leasehold improve-ments	Furniture and equip-ment	Motor vehicles	Intangible assets	Capital investments	Total
Cost						
1 January 2016	**5,650**	**9,977**	**1,946**	**2,711**	2,940	**23,224**
Additions	-	1 502	-	898	1,408	**3,808**
Transfers	-	-	-	4,348	(4,348)	**-**
31 December 2016	**5,650**	**11,479**	**1,946**	**7,957**	**-**	**27,032**
Accumulated depreciation and amortization						
1 January 2016	**415**	**3,696**	**969**	**937**	**-**	**6,017**
Depreciation and amortization (Note 22)	795	1,665	389	610	-	3,459
31 December 2016	**1,210**	**5,361**	**1,358**	**1,547**	**-**	**9,476**
Net book value as at 31 December 2016	**4,440**	**6,118**	**588**	**6,410**	**-**	**17,556**

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

	Leasehold improve-ments	Furniture and equip-ment	Motor vehicles	Intangible assets	Capital investments	Total
Cost						
1 January 2015	**80**	**3,918**	**1,815**	**905**	**-**	**6,718**
Additions	5,570	6,226	-	1,803	2,940	16,539
Disposals	-	(33)	-	-	-	(33)
Transfers	-	(134)	131	3	-	-
31 December 2015	**5,650**	**9,977**	**1,946**	**2,711**	**2,940**	**23,224**
Accumulated depreciation and amortization						
1 January 2015	**80**	**2,889**	**579**	**850**	**-**	**4,398**
Depreciation and amortization (Note 22)	335	840	390	87	-	1,652
Disposals	-	(33)	-	-	-	(33)
31 December 2015	**415**	**3,696**	**969**	**937**	**-**	**6,017**
Net book value as at 31 December 2015	**5,235**	**6,281**	**977**	**1,774**	**2,940**	**17,207**

(in thousand of Ukrainian hryvnias)

12 Other assets

Other assets as at 31 December are as follows:

	2016	2015
Foreclosed curtain fabric	6,224	6,224
Foreclosed property (land and flat)	6,028	-
Prepayments	1,719	4,402
Materials and supplies	7	46
Other	249	638
Allowance for impairment (Note 23)	(3,580)	(3,689)
Total	**10,647**	**7,621**

During the year ended 31 December 2016, the Bank recognized a recovery of allowance for impairment on foreclosed curtain fabric in amount of UAH 109 thousand (2015: UAH 2,535 thousand) (Note 23).

13 Due to banks

Balances due to banks as at 31 December 2016 are as follows:

	2016	2015
Deposits and balances due to banks:		
OECD countries	188,185	166,956
Domestic	104,954	55,273
Total	**293,139**	**222,229**

As at 31 December 2016, balances due to banks in amount of UAH 293,139 thousand or 100% of total due to banks are placed in six banks (31 December 2015: UAH 222,229 thousand or 100% of total due to banks are placed in five banks).

14 Due to customers

Due to customers as at 31 December 2016 are as follows:

	2016	2015
Current accounts:		
Corporate	252,998	359,509
Retail	22,646	13,264
Total current accounts	**275,644**	**372,773**
Deposits:		
Corporate	159,423	109,691
Retail	89,812	54,294
Total deposits	**249,235**	**163,985**
Total	**524,879**	**536,758**

As at 31 December 2016, current accounts of five largest corporate customers comprised UAH 118,474 thousand or 43% of total current accounts (31 December 2015: current accounts of five largest corporate customers comprised UAH 156,484 thousand or 42% of total current accounts).

(in thousand of Ukrainian hryvnias)

As at 31 December 2016, deposits of five largest customers comprised UAH 99,588 thousand or 40% of total deposits (31 December 2015: deposits of five largest customers comprised UAH 114,306 thousand or 70% of total deposits).

15 Other liabilities

Other liabilities as at 31 December 2016 are as follows:

	2016	**2015**
Accrual for unused vacations	1,377	1,084
Accounts payable	1,325	2,716
Other	420	133
Total	**3,122**	**3,933**

16 Subordinated debt

In 2008, the Bank received a subordinated loan of USD 5,000 thousand denominated in US dollars with a nominal interest rate of 5.5% from the shareholder JSC "ALTINBAŞHOLDİNG ANONİM ŞIRKETİ". The principal amount of this loan was initially repayable in August 2013. In 2011, maturity of the loan was extended until July 2017. In 2014, maturity of the loan was extended until July 2020. In 2016, maturity of the loan was extended until July 2022. In December 2016 part of subordinated loan was transfered to the investment account of shareholders. According to the decision of the shareholders of the Bank the currency was sold to increase the capital of the Bank to implement the requirement of the National bank of Ukraine.

In 2011, the Bank received a subordinated loan of USD 500 thousand denominated in US dollars with a nominal interest rate of 6.1% from the shareholder JSC "ALTINBAŞHOLDİNG ANONİM ŞIRKETİ". The loan was initially repayable in July 2016. In 2014, maturity of the loan was extended until July 2020. In December 2016 subordinated loan was transfered to the investment account of shareholders. According to the decision of the shareholders of the Bank the currency was sold to increase the capital of the Bank to implement the requirement of the National bank of Ukraine.

Loans were initially recognized at fair value determined by discounting future payments under the loans at the market rate of interest for similar instruments.

17 Share capital

As at 31 December 2016, the Bank's authorized share capital comprised 88,045,200 ordinary shares with a nominal value of UAH 1.55 per share (31 December 2015: 88,045,200 ordinary shares with a nominal value of UAH 1.17 per share). All shares have equal voting rights. As at 31 December 2016, all shares were fully paid and registered.

No dividends were declared and paid in 2016 and 2015.

In accordance with Ukrainian legislation the distributable reserves are limited to the balance of retained earnings determined in accordance with legislative and regulatory requirements.

In June, 2016, according to the Decision of the shareholders of the Bank dated 14 April 2016, the Bank's share capital was increased by UAH 33,457 thousand through capitalisation of part of the profit for 2015 by increasing nominal value of shares from UAH 1.17 per share to UAH 1.55 per share.

In December 2016 according to the Decision of the Bank's shareholders the Bank partially repaid subordinated debt before schedule. The amount repaid was subsequently transferred to increase share capital of the Bank (Note 16).

Earnings per share

Basic earnings per share are be calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. The Bank does not have converted preferred shares, thus diluted earnings per share is equal to basic earnings per share.

	2016	**2015**
Profit for the period owned by holders of the Bank's ordinary shares	30,908	36,143
Average number of outstanding shares for the period (thousand shares)	88,045,200	88,045,200
Earnings per ordinary share	0.00035	0.00041

18 Commitments and contingencies

(a) Operating lease commitments

The Bank leases operational premises in the normal course of business. Future payments on non-cancellable leases as at 31 December are as follows:

	2016	**2015**
Within one year	2,061	1,185

(b) Commitments to extend credit

The Bank has outstanding commitments to extend credit and provided guaranties. Guarantees represent irrevocable commitments of the Bank to make payments in the case of the client's inability to fulfil its obligations to third parties and have the same credit risk as loans.

Total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2016, irrevocable commitments to extend credit and guaranties comprise UAH 1,529 thousand and UAH 7,028 thousand respectively (31 December 2015: UAH 1,572 thousand and UAH 0 thousand respectively).

(c) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption or third party liability in respect of damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(d) Tax contingency

The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation. Tax regulations are often unclear open to wide interpretation and in some instances are conflicting. Instances of inconsistent opinions between local regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes it has complied with all existing tax legislation. However, it is not certain that tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

(in thousand of Ukrainian hryvnias)

(e) Litigation

The Bank is involved in various legal proceedings in the ordinary course of business. Management of the Bank believes that no legal proceedings will have a material effect on financial position of the Bank.

19 Interest income and expense

Interest income and expense for the year ended 31 December 2016 are as follows:

	2016	**2015**
Loans and advances	103,716	83,491
Securities: held to maturity	8,686	5,990
Due from banks	927	1,093
Total interest income	**113,329**	**90,574**
Deposits	(19,698)	(17,271)
Current accounts	(16,988)	(19,575)
Subordinated debt	(10,446,)	(8,966)
Due to banks	(10,507)	(1,726)
Total interest expense	**(57,639,)**	**(47,538)**
Net interest income	**55,690,**	**43,036**

20 Fee and commission income

Fee and commission income for the year ended 31 December 2016 is as follows:

	2016	**2015**
Fee and commission income:		
Currency exchange	10,227	9,020
Payments and cash withdrawals	10,129	6,261
Other	5,068	4,105
Total fee and commission income	**25,424**	**19,386**
Fee and commission expense:		
Payments and cash withdrawals	(2,713)	(1,783)
Other	(211)	(178)
Total fee and commission expense	**(2,924)**	**(1,961)**

21 Other operating income

	2016	**2015**
Proceeds from loans previously written-off	6,189	-
Gain on sale of other assets	351	617
Penalties and fines	195	308
Gain on revaluation of investment property (Note 10)	61	-
Gain on sale of investment property	-	776
Other	6	65
Total other operating income	**6,802**	**1,766**

(in thousand of Ukrainian hryvnias)

22 Administrative and other operating expenses

Administrative and other operating expenses for the year ended 31 December 2016 are as follows:

	2016	2015
Salary and employee benefits	36,440	32,679
Rent and maintenance of premises	10,976	10,243
Communication and information	3,521	3,793
Depreciation and amortization	3,459	1,652
Legal and consulting services	3,400	3,451
Repairs and maintenance of property and equipment	1,940	1,697
Business trips	1,417	1,198
Audit	1,159	641
Taxes other than on income and other charges	1,130	967
Stationary and office consumables	1,050	1,012
Security	270	273
Advertising and marketing	90	177
Transportation	8	57
Loss on revaluation of investment property (Note 10)	-	1,784
Other	2,698	815
Total	**67,558**	**60,439**

23 Allowance for impairment

Movements in allowance for impairment for the year ended 31 December 2016 are:

	Loans and advances	Other assets
Balance as at 1 January 2015	**(3,071)**	**(6,224)**
Recovery of allowance for impairment	408	2,535
Balance as at 31 December 2015	**(2,663)**	**(3,689)**
Recovery of allowance for impairment	626	**109**
Balance as at 31 December 2016	**(2,037)**	**(3,580)**

24 Income tax expense

Income tax expense is comprised of the following:

	2016	2015
Current tax expense	7,068	8,375
Deferred tax charge / (benefit)	(310)	(1,010)
Total tax expense for the year	**6,758**	**7,365**

The income of the Bank for 2016 is taxable at the rate of 18% (2015: 18%). The reconciliation between the expected and the actual income tax expense is provided below:

	2016	2015
Profit before tax	**37,666**	**43,508**
Theoretical tax charge at 18%	6,780	7,831
Non-deductible expenses	(22)	(466)
Effective income tax expense	**6,758**	**7,365**

(in thousand of Ukrainian hryvnias)

(a) Movements in recognized temporary differences during the year

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

	1 January 2016	Recognized through profit or loss	31 December 2016
	Asset (liability)	*Benefit (charge)*	*Asset (liability)*
Loans and advances	(434)	217	(217)
Other liabilities	39	93	132
Total	**(395)**	**310**	**(85)**

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

	1 January 2015	Recognized through profit or loss	31 December 2015
	Asset (liability)	*Benefit (charge)*	*Asset (liability)*
Loans and advances	(651)	217	(434)
Investment property	104	(104)	-
Other assets	1,111	(1,111)	-
Subordinated debt	(2,039)	2,039	-
Other liabilities	70	(31)	39
Total	**(1,405)**	**1,010**	**(395)**

25 Derivative financial instruments

Derivative financial instruments are represented mainly by forward foreign currency exchange contracts and interbank swaps.

Management believes that these transactions are in substance foreign exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivative financial instruments.

The table below sets out gross amounts of receivable and payable upon settlement of amounts of forward foreign currency exchange derivative contracts and of loans due from and deposits due to banks. Because these contracts are short-term the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the financial instruments:

	2016	2015
	Forward currency exchange contracts	**Forward currency exchange contracts**
UAH receivable	40,411	39,124
USD receivable	-	-
USD payable	(40,786)	(22,801)
EUR payable	-	(16,258)
Fair value of assets / (liabilities)	**(375)**	**65**
Maximum exposure to credit risk (gross amount receivable)	**40,411**	**39,124**

26 Financial risk management

Management of risk is fundamental to the banking business and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (which includes risk of movements in foreign exchange rates and in interest rates) and liquidity risk.

(a) Risk management framework

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

The risks are managed in an integrated manner and are evaluated in accordance with Bank's internal policies which are reviewed and approved by the Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

(b) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations and arises principally from loans and advances and securities. The maximum credit risk exposure is generally net carrying amounts of instruments as at end of the reporting period.

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to Note 9.

The Bank has to comply with varying NBU regulations that limit exposure to companies groups of companies and related parties. To manage credit risk the Bank deals with counterparties of good credit standing and when appropriate obtains collateral.

Corporate lending

In making its lending decisions the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions, and the amount of risk involved in lending to a particular borrower using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

Retail lending

The Bank ceased its retail lending activities. The Bank plans to grant retail loans only in exceptional cases and will concentrate on collection of existing retail loans.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on an analysis of overdue payments and other information obtained by the Bank. In light of this information the borrower's internal credit rating may be revised.

(in thousand of Ukrainian hryvnias)

Credit risk on off-balance sheet items

The maximum exposure to off-balance sheet credit risk at 31 December 2016 is as follows:

	2016	**2015**
Irrevocable credit lines (Note 18(b))	1,529	1,572
Guaranties (Note 18(b))	7,028	-
Gross amount receivable on derivatives (Note 25)	40,411	39,124
Total off-balance sheet exposure	**48,968**	**40,696**

(c) 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 the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

(i) Foreign currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency 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 internally developed methodology. The policy with regard to open foreign currency position is restricted to certain thresholds under regulatory provisions of the NBU however the calculation of open currency position under regulatory provisions differs from the below table.

Foreign currency positions as at 31 December 2016 are as follows:

	USD	**EUR**	**Other**
Assets			
Cash and cash equivalents	54,800	157,442	447
Due from banks	3,073	-	-
Loans and advances	364,349	19,394	-
Other assets	6	55	-
	422,228	**176,891**	**447**
Liabilities			
Due to banks	(148,056)	(135,838)	(50)
Due to customers	(138,147)	(40,820)	(113)
Subordinated debt	(92,858)	-	-
Other liabilities	(14)	(1)	-
	(379,075)	**(176,659)**	**(163)**
Net balance sheet position	**43,153**	**232**	**284**
Derivatives: forward foreign currency exchange contracts (note 25)	(40,786)	-	-
Net long position	**(2,367)**	**232**	**284**

(in thousand of Ukrainian hryvnias)

Foreign currency positions as at 31 December 2015 are as follows:

	USD	EUR	Other
Assets			
Cash and cash equivalents	285,172	47,040	122
Due from banks	2,952	-	-
Loans and advances	207,988	39,624	-
	496,112	**86,664**	**122**
Liabilities			
Due to banks	(175,024)	(47,205)	-
Due to customers	(165,223)	(22,558)	(11)
Subordinated debt	(117,475)	-	-
	(457,722)	**(69,763)**	**(11)**
Net balance sheet position	**38,390**	**16,901**	**111**
Derivatives: forward foreign currency exchange contracts (note 25)	(22,801)	(16,258)	-
Net long position	**15,589**	**643**	**111**

Other currencies are mainly represented by Turkish Lira.

Currency risks as defined by IFRS is the risk related to effect of changes in foreign exchange rates to value of financial instruments..

Relevant risk variables are generally non-functional currencies in which the Bank has financial instruments. The following tables demonstrate the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Bank’s profit before tax for the years ended 31 December 2016 and 2015.

2016	**Increase/ decrease in exchange rate**	**Effect on profit before tax**
USD/UAH	+53%	1,255
USD/UAH	-13%	(308)

2015	**Increase/ decrease in exchange rate**	**Effect on profit before tax**
USD/UAH	+67%	10,950
USD/UAH	-18%	(2,942)

(ii) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term 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 management 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 management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement which is documented in an addendum to the original agreement which sets forth the new interest rate.

As at 31 December 2016 the Bank had two floating rate instruments. Increase of effective interest rate by 1 percentage will decrease profit of the Bank by UAH 1,175 thousand (31 December 2015:

(in thousand of Ukrainian hryvnias)

one floating rate instrument, increase of effective interest rate by 1 percentage will decrease profit of the Bank by UAH 1,200 thousand).

(d) Liquidity risk

Liquidity risk arises in the general funding of activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue long-term and short-term loans from other banks core corporate and retail customer deposits accompanied by 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 and buys and sells foreign currency securities and precious metals. To maintain its long-term liquidity the Bank takes medium and long-term deposits sells assets such as securities regulates its interest rate policy and strives to reduce expenses.

The contractual remaining maturities of non-derivative financial assets and liabilities as at 31 December 2016 are as follows:

	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
Assets						
Cash and cash equivalents	235,022	-	-	-	-	**235,022**
Securities: held to maturity	60,039	-	-	-	-	**60,039**
Due from banks	-	-	3,073	-	-	**3,073**
Loans and advances	143,627	209,455	479,850	9,943	-	**842,875**
	438,688	**209,455**	**482,923**	**9,943**	**-**	**1,141,009**
Liabilities						
Due to banks	156,117	-	137,022	-	-	**293,139**
Due to customers	383,454	53,326	78,600	9,499	-	**524,879**
Subordinated debt	-	-	626	-	92,232	**92 858**
	539,571	**53,326**	**216,248**	**9,499**	**92,232**	**910, 876**
Liquidity surplus (gap)	(100,883)	156,129	266,675	444	(92, 232)	**230, 133**
Cumulative liquidity surplus (gap)	**(100,883)**	**55,246**	**321,921**	**322,365**	**230,133**	

The contractual remaining maturities of non-derivative financial assets and liabilities as at 31 December 2015 are as follows:

(in thousand of Ukrainian hryvnias)

	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
Assets						
Cash and cash equivalents	365,048	-	-	-	-	**365,048**
Securities: held to maturity	150,101	-	-	-	-	**150,101**
Due from banks	-	-	-	2,952	-	**2,952**
Loans and advances	68,253	118,533	328,249	8,677	9	**523,721**
	583,402	**118,533**	**328,249**	**11,629**	**9**	**1,041,822**
Liabilities						
Due to banks	101,401	-	120,828	-	-	**222,229**
Due to customers	474,614	45,795	10,605	5,744	-	**536,758**
Subordinated debt	-	-	631	116,844	-	**117,475**
	576,015	**45,795**	**132,064**	**122,588**	**-**	**876,462**
Liquidity surplus (gap)	7,387	72,738	196,185	(110,959)	9	**165,360**
Cumulative liquidity surplus	**7,387**	**80,125**	**276,310**	**165,351**	**165,360**	

"Due to customers" line includes deposits of individuals with the right of early withdrawal. The management of the Bank considers, that the majority part of the deposits will not be withdrawn before contractual maturity date, so amounts due to customers are disclosed according to contractual remaining maturities.

Due to short-term nature of the loans issued by the Bank it is likely that many of the loans will be prolonged at maturity date. On the contrary, historical experience demonstrates that certain loans are settled before their contractual maturity dates. Accordingly the effective maturity of the loan portfolio may be significantly different than the term based on contractual terms.

The contractual maturity analysis of undiscounted cash flows (including interest payments to be accrued in future) for financial liabilities as at 31 December 2016 is as follows:

	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
Due to banks	156,151	-	144,913	-	-	**301,064**
Due to customers	385,512	55,502	86,719	9,643	-	**537,376**
Derivative financial instruments that are redeemed by the delivery of the underlying asset:					-	
- amounts payable	40,786	-	-	-		**40,786**
- amounts receivable	(40411)	-	-	-	-	**(40,411)**
Subordinated debt	-	-	6,072	23,822	110,181	**140,075**
Total	**542,038**	**55,502**	**237 704**	**33,465**	**110,181**	**978,890**

(in thousand of Ukrainian hryvnias)

The contractual maturity analysis of undiscounted cash flows (including interest payments to be accrued in future) for financial liabilities as at 31 December 2015 is as follows:

	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
Due to banks	102,283	-	127,214	-	-	**229,497**
Due to customers	475,078	46,440	11,051	5,926	-	**538,495**
Subordinated debt	-	-	7,334	158,282	-	**165,616**
Total	**577,361**	**46,440**	**145,599**	**164,208**	**-**	**933,608**

27 Capital management

(i) Regulatory capital

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital ratio) above the prescribed minimum level. If it does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial position. As at 31 December 2016, the minimum level required by the NBU is 10.0% (31 December 2015: 10.0%).

The Bank's capital adequacy ratio as at 31 December 2016 is 39,44% (31 December 2015: 42.87%). The Bank was in compliance with the regulatory capital ratios set by the NBU as at 31 December 2016 and 2015. The amount of regulatory capital as at 31 December 2016 is UAH 344,170 thousand (31 December 2015: UAH 270,162 thousand).

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord I as at 31 December:

	2016	2015
Tier I capital		
Share capital	178,474	103,013
Retained earnings, share premium and additional paid in capital	77,116	79,665
Total Tier I capital	**255,590**	**182,678**
Subordinated debt	92,858	117,475
Total capital	**348,448**	**300,153**

28 Balances with related parties

The Bank grants loans and advances 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 party when making financial and operational decisions. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise entities which are under common control with the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

As at 31 December 2016 and 2015, the ultimate controlling party of the Bank is JSC "ALTINBAŞ HOLDING ANONIM ŞIRKETI", which is ultimately controlled by members of Altinbaş family.

Balances and transactions with the related parties as at and for the year ended 31 December 2016 and 31 December 2015 are as follows:

(in thousand of Ukrainian hryvnias)

	2016	2015
Balances and transactions with the Parent company		
Statement of financial position:		
Subordinated debt	92,858	117,475
Loans and advances from international and other financial institutions	-	-
Due to customers	-	48,073
Statement of comprehensive income:		
Interest expenses	5,114	16,983
Balances and transactions with the key management personnel		
Statement of financial position:		
Loans and advances to customers	10	9
Due to customers	2,094	1,233
Statement of comprehensive income:		
Interest income	6	3
Interest expenses	113	91
Salaries and related charges	10,531	6,951

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2016 are as follows:

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	92,858	5,5%	-	-
Due to customers	-	-	-	-	-	-
Balances with key management personnel						
Loans and advances	10	36.0%	-	-	-	-
Deposits from customers	-	-	1,846	4-6.5%	-	-
Current accounts	77	0.25-10%	161	0.25-2%	10	0.25%

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2015 are as follows:

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	117,475	5.5-6.1%	-	-
Due to customers	-	-	48,073	6.0%	-	-
Balances with key management personnel						
Loans and advances	9	45.0%	-	-	-	-
Deposits from customers	-	-	1,138	7.7%	-	-
Current accounts	41	0.3%	53	0.3%	1	0.3%

(in thousand of Ukrainian hryvnias)

The remaining contractual maturities of balances with related parties as at 31 December 2016 are as follows:

	Within one month	**From one to three months**	**From three months to one year**	**From one to five years**	**More than five years**	**Total**
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	-	-	92,858	**92,858**
Due to customers	-	-	-	-	-	**-**
Balances with key management personnel						
Loans and advances to customers	-	-	-	10	-	**10**
Due to customers	248	470	1,376	-	-	**2,094**

The remaining contractual maturities of balances with related parties as at 31 December 2015 are as follows:

	Within one month	**From one to three months**	**From three months to one year**	**From one to five years**	**More than five years**	**Total**
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	-	117,475	-	**117,475**
Due to customers	-	48,073	-	-	-	**48,073**
Balances with key management personnel						
Loans and advances to customers	-	-	-	9	-	**9**
Due to customers	89	-	1,144	-	-	**1,233**

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly and includes members of the Board of Management.

29 Estimation of fair value

(a) Fair value of financial assets and liabilities not carried at fair value

Set out below is the comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried at amortized cost in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2016		**2015**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	235,022	235,022	365,048	365,048
Securities: held to maturity	60,039	60,039	150,101	150,101
Due from banks	3,073	3,073	2,952	2,952
Loans and advances	842,875	856,562	523,721	522,113
Total	**1,141,009**	**1,154,696**	**1,041,822**	**1,040,214**
Due to banks	293,139	293,139	222,229	222,229
Due to customers	524,879	525,163	536,758	536,478
Subordinated debt	92,858	102,367	117,475	125,762
Total	**910,876**	**920,669**	**876,462**	**884,469**

(in thousand of Ukrainian hryvnias)

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments, which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For the financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Financial assets and financial liabilities carried at amortized cost

For those instruments carried at amortized cost a discounted cash flow model is used based on a current market rates offered for similar financial instruments with similar provisions, similar credit risk and maturity.

(b) Financial instruments recorded at fair value

All the assets and liabilities whose fair value is measured or disclosed in the financial statements are classified by fair value sources hierarchy level presented below on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are directly or indirectly based on market data; and
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are not observable on the market.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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			
31 December 2016	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets (liabilities) measured at fair value				
Other liabilities (Derivative financial instruments)	-	(375)	-	**(375)**
Assets for which fair values are disclosed				
Cash and cash equivalents	235,022	-	-	**235,022**
Securities: held to maturity	60,039	-	-	**60,039**
Due from banks	-	3,073	-	**3,073**
Loans and advances	-	856,562	-	**856,562**
Liabilities for which fair values are disclosed				
Due to banks	-	293,139	-	**293,139**
Due to customers	-	525,163	-	**525,163**
Subordinated debt	-	-	102,367	**102,367**

(in thousand of Ukrainian hryvnias)

Information about changes of value of investment property during 2016 has been disclosed in Note 10.

	Fair value measurement using			
31 December 2015	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets (liabilities) measured at fair value				
Other assets (Derivative financial instruments)	-	65	-	**65**
Assets for which fair values are disclosed				
Cash and cash equivalents	365,048	-	-	**365,048**
Securities: held to maturity	150,101	-	-	**150,101**
Due from banks	-	2,952	-	**2,952**
Loans and advances	-	522,113		**522,113**
Liabilities for which fair values are disclosed				
Due to banks	-	222,229	-	**222,229**
Due to customers	-	536,478	-	**536,478**
Subordinated debt	-		125,762	**125,762**

The following is the description of the determination of fair value for the financial instruments which are recorded at fair value using the valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

The derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward and swap models, using the present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates.

During 2016, the Bank did not transfer any financial assets or financial liabilities between fair value hierarchy levels.