PUBLIC JOINT STOCK COMPANY
“RWS BANK”

Annual financial statements

For the year ended 31 December 2016
Together with independent auditor’s report

Contents

Statement of financial position (Balance sheet)
As at 31 December 2016

(UAH'000)

Item description	Notes	2016	2015
1	**2**	**3**	**4**
Assets			
Cash and cash equivalents	6	88,543	359
Due from other banks	7	-	91,090
Loans and advances to customers	8	12,560	277
Investment property	9	200,662	452,213
Property, equipment and intangible assets	10	1,578	317
Other financial assets	11	86	48,091
Other assets	12	31,575	356
Non-current assets held for sale	13	2,460	16,230
Total assets		**337,464**	**608,933**
Liabilities			
Customer accounts	14	68,920	32,781
Current income tax liabilities		-	41,244
Other financial liabilities	15	14,215	224,538
Other liabilities	16	5,861	832
Total liabilities		**88,996**	**299,395**
Share capital	17	300,039	121,522
Reserve and other funds of the bank		9,400	-
(Accumulated deficit) / Retained earnings		(60,971)	188,016
Total equity		**248,468**	**309,538**
Total liabilities and equity		**337,464**	**608,933**

Approved for issuance and signed

24 April 2017 Chairman of the Board ________________ V.I. Kravets

(044) 590-00-02 Chief Accountant _______________ L.S. Lisovenko

Statement of profit and loss and other comprehensive income
(Statement of financial results)
For 2016

(UAH'000)

Item description	Notes	2016	2015
1	2	3	4
Interest income	19	6,015	8,215
Interest expense	19	(759)	-
Net interest income		**5,256**	**8,215**
Net decrease / (increase) in allowances for impairment of loans and advances to customers, due from other banks	7.8	8,088	(34,542)
Net interest income / (Net interest expense) after formation of allowances for impairment of loans and advances to customers, due from other banks		**13,344**	**(26,327)**
Fee and commission income	20	662	37
Fee and commission expense	20	(43)	(2)
Gains less losses from dealing in foreign currencies		140	608
Gains less losses from translation of foreign currencies		(7)	14
Gains less losses from revaluation of investment property items		108,486	2,000
Net increase in allowances for impairment of receivables and other financial assets	11	(48,732)	(12,084)
Other operating income	21	100,170	267,920
Administrative and other operating expenses	22	(235,090)	(2,836)
(Loss)/income before tax		**(61,070)**	**229,330**
Income tax expense	23	-	(41,314)
(Loss) / income for the reporting period		**(61,070)**	**188,016**
(Loss) / earnings per share (in UAH per share)		(5.02)	24

Approved for issuance and signed

24 April 2017 Chairman of the Board ________________ V.I. Kravets

(044) 590-00-02 Chief Accountant _______________ L.S. Lisovenko

Statement of changes in equity
(Statement of equity)
For 2016

(UAH'000)

Item description	Notes	Share capital	Reserve and other funds	Retained earnings (accumulated deficit)	Total equity
1	2	3	4	5	6
Balance at 1 January 2015				-	-
Total comprehensive income:				188,016	**188,016**
Income for the year				188,016	**188,016**
Share issue:		121,522	-	-	**121,522**
Nominal amount		121,522		-	**121,522**
Balance at 31 December 2015		**121,522**		**188,016**	**309,538**
Total comprehensive income:				(61,070)	**(61,070)**
Loss for the year				(61,070)	**(61,070)**
Income allocation to reserve and other funds			9,400	(9,400)	-
Share issue:	17	178,517		(178,517)	-
Increase in nominal amount of shares		178,517		(178,517)	-
Balance at 31 December 2016		**300,039**	**9,400**	**(60,971)**	**248,468**

Approved for issuance and signed

24 April 2017 Chairman of the Board ________________ V.I. Kravets

(044) 590-00-02 Chief Accountant _______________ L.S. Lisovenko

Statement of cash flows (Direct method)
For 2016

(UAH'000)

Item description	2016	2015
1	**2**	**3**
Cash flows from operating activities		
Interest income received	3,891	4,298
Interest expense paid	(666)	-
Fee and commission income received	662	31
Fee and commission expense paid	(43)	(2)
Gains less losses from dealing in foreign currencies	151	595
Other operating income	1,611	70
Personnel expenses paid	(7,782)	(725)
Administrative and other operating expenses paid	(14,077)	(1,996)
Income tax paid	(41,244)	(17)
Cash (used in) / from operating activities before changes in operating assets and liabilities	**(57,497)**	**2,254**
Changes in operating assets and liabilities		
Net (increase) / decrease in due from other banks	92,578	(159,910)
Net (increase) / decrease in loans and advances to customers	14,803	304
Net (increase) / decrease in other financial assets	(580)	-
Net (increase) / decrease in other assets	203,015	(1)
Net increase / (decrease) in customer accounts	36,064	30,392
Net increase/(decrease) in other financial liabilities	(209,956)	5,828
Net increase/(decrease) in other liabilities	4,682	-
Net cash from / (used in) operating activities	**83,109**	**(121,133)**
Cash flows from investing activities		
Proceeds from sale of investment property	6,500	-
Acquisition of intangible assets	(177)	(44)
Acquisition of property and equipment	(1,265)	-
Net cash from / (used in) investing activities	**5,058**	**(44)**
Cash flows from financing activities		
Contributions to share capital		121,522
Net cash from financing activities	**-**	**121,522**
Effect of NBU's exchange rates changes on cash and cash equivalents	17	14
Net increase in cash and cash equivalents	**88,184**	**359**
Cash and cash equivalents at the beginning of the year	**359**	**-**
Cash and cash equivalents at the end of the year	**88,543**	**359**

Approved for issuance and signed

24 April 2017 Chairman of the Board ________________ V.I. Kravets

(044) 590-00-02 Chief Accountant _______________ L.S. Lisovenko

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Note 1. Corporate information

Full name of the Bank: **PUBLIC JOINT-STOCK COMPANY “RWS BANK”**

Short name of the Bank: **PJSC “RWS BANK”**

PUBLIC JOINT-STOCK COMPANY “RWS BANK” is located at the address: 29/58, Vvedenska str., Kyiv, 04071, Ukraine

The Bank has been registered in Ukraine.

According to the scheme of arrangement approved by the Executive Directorate of the Deposit Guarantee Fund (the “Fund”) of 5 May 2015 (minutes #102/15), as amended on 12 June 2015 (minutes #127/15) PUBLIC JOINT-STOCK COMPANY “RWS BANK” (the “Bank”) is the successor of assets (including rights under the collateral agreements) and obligations under the claims of creditors (depositors) under the transferred liabilities of PUBLIC JOINT-STOCK COMPANY “OMEGA BANK” (name of the insolvent bank) registered with the National Bank of Ukraine on 31 October 1991 under #69.

PJSC “RWS BANK” has been established by decision of the Executive Directorate of the Deposit Guarantee Fund of 18 June 2015 (minutes #132/15) on the establishment of a transitional bank to implement the method of the insolvent bank withdrawal from the market of PJSC "OMEGA BANK" (PJSC “OMEGA BANK”) provided by the second paragraph of PUBLIC JOINT-STOCK COMPANY “OMEGA BANK” (PJSC “OMEGA BANK”) as provided for by paragraph two part sixteen of Article 42 of the Law of Ukraine" On Households Deposit Guarantee System”.

The founder of the Bank was Deposit Guarantee Fund, which owned 100% shares of the Bank at the time the Bank establishment.

The Bank was registered by the State Registrar of the Registration Service of the Main Department of Justice in the city of Kyiv on 22 June 2015, entered in the State Register of Banks on 25 June 2015 under #354.

According to Decision #371 of the Executive Directorate of the Deposit Guarantee Fund “On Termination of Powers of the Supervisor of the Deposit Guarantee Fund at PJSC “RWS BANK” and Return of Guarantee Payment of “UKRAINIAN BUSINESS GROUP” LLC of 18 March 2016, on 19 March 2016 the powers of supervisor of the Deposit Guarantee Fund at the Bank were terminated.

The sole shareholder of the Bank is LIMITED LIABILITY COMPANY “UKRAINIAN BUSINESS GROUP” (location: 10/5 A, Sahaidachnoho/Ihorivska str., Kyiv, 04070. identification code 33639580), which owns hundred (100) percent of the Bank’s voting shares. The ultimate beneficiary is the individual, a citizen of Ukraine, Oleksandr Volodymyrovych Stetsiuk, who owns 99% in the share capital of the LIMITED LIABILITY COMPANY “UKRAINIAN BUSINESS GROUP” (“UBG”).

Business legal structure: public joint-stock company.

Reporting date: 31 December (COB).

Reporting period: 12 months of the year 2016. The Chairman of the Board of the Bank approved these financial statements on 24 April 2017.

PJSC “RWS BANK” conducts its operations pursuant to banking license #277 of 25 June 2015. According to the banking license, the Bank is entitled to provide banking services specified in part three of Article 47 of the Law of Ukraine “On Banks and Banking”.

Based on the received General License for currency transactions #277 of 25 June 2015, the Bank carries out currency transactions listed in the Annex to the General License.

According to the Bank's Charter, the purpose of its activities is to provide to customers a wide range of banking and other financial services (excluding insurance services), as well as carrying out other activities specified by the law of Ukraine, actively promote strengthening and development of economy of Ukraine.

The Bank is a participant of Deposit Guarantee Fund and registered in the Register of banks-participants of the Fund on 15 July 2015 under #239. The Bank obtained Certificate of Participant of the Fund #230 of 15 July 2015.

Note 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 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 events on the financial position and performance of the Company 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 Company's financial position and performance in a manner not currently determinable.

Note 3. Basis of preparation

General

These financial statements have been prepared by the Bank in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and IFRS Interpretations Committee for the year ended 31 December 2016.

IFRS financial statements are prepared on the basis of accounting data maintained by the Bank in accordance with the regulations of the National Bank of Ukraine and contain adjusted required to present separate financial statements in accordance with IFRS. These adjustments and reclassifications include certain, adjustments, estimates and reclassifications to reflect the economic substance of underlying transactions, including reclassifications of certain assets and liabilities, income and expenses in the relevant items of financial statements to present such financial statements in accordance with IFRS.

Going concern

The Bank's financial statements are based on the fundamental assumption of going concern, accrual principal and qualitative characteristics of understandability, relevance, reliability and comparability.

The Bank's assets and liabilities were formed by their transferring by the Deposit Guarantee Fund. The Bank is the successor of the assets and liabilities transferred from PJSC "OMEGA BANK". Following the requirement of IFRS and implementing the risk management policy, the Bank has created 100% allowance for these assets, which increased the amount of its negative financial results for 2016 generated mainly by the sale of non-current assets. The Bank undertakes measures to reduce assets transferred from PJSC "OMEGA BANK" by restructuring or repayment of debts and claims work with the Bank's counterparties. In 2016, the Bank paid considerable attention to the settlement of bad debts of borrowers, as a result of which the Bank's Bank customers repaid their debts for the amount of USD 34 million.

In 2016, the Bank's shareholders approved the Bank's Development Strategy for 2017-2019. This strategy takes into account the Bank's development in respect of the investment policies, policies to attract capital and increase share capital primarily owing to the Bank's income.

Having assessed the implications of the above facts of the Bank's activities and known events and circumstances described in Note 2 to the financial statements, the Bank's management concluded that the use of going concern assumption is appropriate in the preparation and presentation of financial statements. Accordingly, assets and liabilities are presented on the basis that the Bank will be able to realize its assets and settle its liabilities in the normal course of business.

Functional and presentation currency

The functional currency, in which the Banks' accounting records are maintained and financial statements are presented, is Ukrainian Hryvnia. The balances of analytical accounts, which at the reporting date are accounted by the Bank in currency, which differs from the functional currency, are translated to the functional currency at the exchange rates, at that:

- Assets and liabilities in the statement of financial position are translated at the exchange rate at the end of the day of the relevant reporting period;
- Components of capital, if any, are translated at the historical exchange rates.

Income and expenses are not translated, insofar as such accounts are accounted for by the Bank only in the functional currency.

As at 31 December 2016, the major exchange rates used for translation of amounts in foreign currency were as follows:

	31 December 2016, UAH	**31 December 2015, UAH**
1 USD	27.190858	24.000667
1 EUR	28.422604	26.223129
1 RUB	0.45113	0.32931

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on the management's experience and other factors, including expectations of future events, which are believed to be reasonable under the existing circumstances.

These financial statements have been presented in thousands of Ukrainian Hryvnia ("UAH"), except for data in calculation of income per one ordinary share and unless otherwise stated.

Changes in the Bank's financial statements for the year ended 31 December 2015

In the preparation of these financial statements, the Bank adjusted income for 2015 on impaired loans to customers and reclassified the subordinated debt in accordance with its economic substance. The effect of recalculation is provided below:

	As previously presented	**Effect of recalculation**	**Adjusted data**
Statement of financial position			
Other financial liabilities	9,479	215,059	224,538
Subordinated debt	215,059	(215,059)	-
Statement of profit and loss and other comprehensive income			
Interest income	10,072	(1,857)	8,215
Net (increase) /decrease in allowances for impairment of loans and advances to customers, due from other banks	(36,399)	1,857	(34,542)

All the notes to the financial statements for 2015, which underwent impact of the aforementioned recalculation, have been changed accordingly.

Note 4. Accounting policies

In the reporting year, 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

Amendments to IAS 1 «Presentation of Financial Statements» rather clarify then amend the existing requirements of IAS 1. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement of profit or loss and OCI 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(s) of profit or loss and OCI. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

Annual improvements 2012-2014 cycle

The amendments 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. The amendment must be applied prospectively.

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.

Summary of significant accounting policies applied in the preparation of these financial statements is provided below. These policies have been consistently applied to all periods presented, unless otherwise stated.

The Bank has no subsidiaries and associates as a single economic unit and does not prepare consolidated financial statements.

4.1. Basis of preparation

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The basis for measurement of the Bank's financial statements is historical cost, except for items described in significant accounting policies below. For example, investment property is measured at fair value in accordance with IAS 40 "*Investment Property*", assets held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are stated at the lower of: carrying amount and fair value less selling expenses.

The Bank selects and applies its accounting policies consistently for similar transactions, other events and conditions, unless a standard or interpretation specifically requires or permits to classify the reporting items, for which other policies may be appropriate. If a standard or interpretation requires or permits such classification, the Bank selects appropriate accounting policies and applies them consistently to each category.

Summary of significant accounting policies applied in the preparation of these financial statements is provided below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Terms used in this note have the meanings defined by IFRS.

4.2. Initial recognition of financial instruments

Financial instruments are classified in accounting as either financial assets, financial liabilities, equity instruments or derivatives. The management determines the classification of financial instruments upon initial recognition.

Financial assets and liabilities are recognized when the Bank becomes a party to an agreement for acquisition of financial instrument. All regular way purchases and sales of financial assets are recognised on the trade date.

A financial asset or financial liability is initially recorded at fair value plus, if the financial asset or liability is not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability.

Upon initial recognition, financial assets, including derivatives, which are assets, are measured at fair value without any deduction for transaction costs, which may be incurred during the sale or other disposal of the financial asset.

If the value measurement based on observable market data indicates a gain or loss from the revaluation to fair value on initial recognition of an asset or liability, the gain or loss is recognized immediately in the income statement.

If the initial gain or loss is not fully based on observable market data, it is deferred and recognized over the term of the asset or liability in a proper manner, or when prices become known, or on disposal of an asset or liability.

Financial assets or financial liabilities originated at rates different from market rates are remeasured at origination to fair value, which represents 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 recognised in the income statement as gain or loss on origination of financial instruments at rates different from market rates.

The fair value of financial instruments is based on their quoted price in the market at the reporting date without any deduction for transaction costs. If the quoted price is not available, fair value of the instrument is determined using pricing models or discounted cash flow methods.

In applying the discounted cash flow method, the expected future cash flows are based on the most accurate estimates of the management. At that, the discount rate is used, which is equal to market rate at the reporting date for an instrument with similar terms and conditions. When using pricing models, the data on financial instruments entered in the model are based on market estimates at the reporting date.

The fair value of derivatives, which are not traded on the stock exchange, is determined at the amount, which the Bank would receive or pay to terminate the contract at the reporting date, taking into account current market conditions and solvency of counterparties.

The gain or loss resulting from changes in the fair value of a financial asset or liability is recognized as follows:

- Gains or losses on financial instrument classified as financial instruments designated at fair value through profit or loss are recognized in the income statement;
- Gains or losses on financial assets available-for-sale are recognized directly in equity in the statement of changes in equity (except for impairment losses and gains and losses on translation rate differences) until derecognition of the asset when the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Interest on financial assets available-for-sale is recognized in the income statement as it is received and is calculated using the effective interest method.

Gains or losses on financial assets and liabilities carried at amortized cost are recognized in the income statement when financial asset or financial liability is derecognised or impaired, as well as through the process of amortisation.

The Bank derecognises financial assets when the rights to cash flows from the assets expired or the Bank has transferred the rights to the cash flows from the financial assets under the contract in transaction under which substantially all risks and rewards of ownership are transferred. Any interest on financial assets, which where transferred, occurred or retained by the Bank, are recognised as separate asset or liability.

The Bank derecognises a financial liability when the obligation specified in the contract was fulfilled, cancelled or expired.

4.3. Impairment of financial assets

Impairment of assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.
The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- Any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by the borrower's financial information That the Bank obtains;
- The borrower considers bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- The value of collateral significantly decreased as a result of the aggravation of situation in the market.

For the purpose of collective assessment for impairment, financial assets are grouped based on similar credit risk characteristics. These characteristics are taken into account in determining expected future cash flows for such group of assets and indicate ability of a debtor to repay the debt according to contractual terms of collectively assessed assets.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of the management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

4.4. Derecognition of financial assets

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the resale.

4.5. Cash and cash equivalents

Cash and cash equivalents include cash, balances on correspondent accounts with the National Bank of Ukraine, balances on correspondent accounts with other banks (nostro accounts), deposits and loans to other banks with maturity up to 90 days from the date of origination, which are not burdened by any contractual obligations. For the purpose of preparation of the Statement of Cash Flows, amounts of mandatory reserves on correspondent account with the National Bank of Ukraine are excluded from item Cash and cash equivalents.

4.6. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired; income is recognised through the amortisation process.

4 .6 .1 Loans and advances to banks

Loans and advances to banks are recognized as financial assets at "Loans and receivables" and are initially measured at fair value (gain/loss on the first day) plus related transaction costs. Upon initial recognition, they are measured at amortized cost using the effective interest method. Loans and advances which do not have fixed maturities are carried at amortized cost based on expected maturities.

Impairment of loans and advances to banks is stated on the accounts of specific allowances. The carrying amount of the asset is reduced through the use of an allowance account. The amount of loss is recognized in the statement of profit and loss and other comprehensive income as expenses.

4 .6 .2 Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments, which are not quoted in the active market, except those classified in other categories of financial assets.

Gains and losses on such assets are recognized in the statement of profit or loss and other comprehensive income (profit/loss of the first day) when they are disposed or impaired, as well as through the process of amortisation.

Loans granted by the Bank with fixed maturities are initially recognised at fair value plus transaction costs.

When the fair value of consideration given does not equal the fair value of loan, fro example, when the loan was granted at rates lower (higher) than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as loss (gain) on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income in accordance with the essence of such losses (gains).

Upon recognition, loans are carried at amortised cost using the effective interest method.

Loans to customers without fixed maturities are recognised using the effective interest rate based on expected maturity.

Impairment of loans and advances to banks is stated on the accounts of specific allowances. The carrying amount of the asset is reduced through the use of an allowance account. The amount of loss is recognized in the statement of profit and loss and other comprehensive income.

4 .6 .3 Writing-off of loans and advances

If it is impossible to recover loans and advances, they are written off against specific allowance for impairment losses with a mandatory verification of compliance with derecognition criteria.

4.7. Securities held to maturity

The Bank classifies as financial assets held to maturity the investments with fixed or determinable payments and fixed maturities, in respect of which the Bank has the intent and ability to hold to maturity. Upon initial recognition, the Bank measures them at amortized cost using the effective interest method less any impairment losses, if any.

When a security from securities held to maturity is redeemed, the Bank should obtain from a payer related to the security its nominal value and interest (under coupon securities) for the last coupon period. On the maturity date, the Bank should fully amortise the discount and premium or, in the case of early redemption, recognize a portion of unamortised discount (premium) as income (expenses).

Securities held to maturity are subject to review for impairment at the reporting dates. Securities are impaired if their carrying amount exceeds the estimated amount of the present value of future cash flows discounted at the original effective interest rate (i.e. the effective interest rate calculated at initial recognition).

Impairment of securities held to maturity is accounted for by creating an allowance for the amount of excess of the carrying amount of securities over the estimated recoverable amount. If the recoverable amount subsequently increases, the amount of created allowance is decreased for the respective amount within the previously created allowance for this security.

Decrease in carrying amount of securities is accounted for only in the amount, which does not result in negative amount of their cost. If due to impairment of securities their carrying amount reaches zero, such securities are accounted for at zero value until the Bank makes a decision on their writing off against the created allowances.

If a security is not redeemed (security validity has expired, the issuer has been declared bankrupt, the decision of the authorized body on its liquidation has been taken), the Bank may write off such financial asset against the created allowance.

As at 31 December 2016, the securities held to maturity comprised the NBU's deposit certificates, which in full included securities denominated in local currency.

The Bank's income and expenses from transactions with securities held to maturity are recognised in the Statement of profit and loss and other comprehensive income (Statement of financial results).

The information on securities held to maturity is disclosed in Note 9.

4.8. Investment property

Recognition criteria

The primary criterion for property allocation (classification) as the investment property and operating property is the purpose of its use. If the Bank does not intend to obtain income from lease of the purchased property (i.e. such property was not purchased for further lease), this property is not deemed as investment property.

The Bank classifies the property as investment property if the property (land or building or part of a building or their combination) is held by the Bank to obtain lease (rent) payments or capital appreciation or both and meets the following criteria:

- Property is not held for future use as operating property;
- Property is not held for sale in the ordinary course of business;
- Property is not constructed and not improved on behalf of third parties;
- Property which is being constructed or improved for future use as investment property;
- If a part of property and equipment item is held for obtaining lease payment and/or increasing the equity, and the rest of the item is operating property, and these parts cannot be sold separately, such property and equipment item is recognized at investment property subject to its use primarily for obtaining lease payment and/or increasing equity.

The decision on the classification of property as an investment or operating property (including in case of transfer from investment to operating property a vice versa, during the operation) is taken by a collective body and formalised by the respective minutes.

The initial cost of investment property includes the purchase price of the property and all expenses directly related to its acquisition. Expenses for ongoing maintenance, repair and maintenance of investment property are expensed when incurred.

Capital investments for construction or development and reconstruction of investment property item, which in the long term will be use as investment property, are capitalized.

The Bank recognises the investment property at initial recognition at the initial cost. Subsequently, the Bank recognises the investment property at fair value.

4.9. Property, equipment and intangible assets

Property and equipment (intangible assets) items are recognized as assets if:

- The Bank obtains control over the asset (meaning that the asset can be sold, exchanged, leased and disposed/transferred in any other way without losing the economic benefits generated by other assets, as well as have economic benefits and limited access of others to these benefits arising from legal rights to an asset);
- There is a very high probability that in the future the Bank will receive the economic benefits associated with the asset;
- The asset value can be estimated reliably.

Property, equipment and intangible assets are accounted for item-by-item. The unit of accounting for property, equipment and intangible assets is a separate inventory item.

Initial recognition of property, equipment and intangible assets

The acquisition of non-current assets on the terms of prepayment (full or partial) until the documents confirming the ownership of the respective item are obtained is accounted for on the relevant accounts receivable for acquisition of assets.

Property, equipment and intangible assets are carried out at the initial cost, which includes all the types of expenses incurred by the Bank in recognising these items as assets (including delivery, assembly, installation expenses paid in connection with the acquisition of the amount of indirect taxes and other expenses required to bring it in working condition).

Non-current assets measurement at the reporting date

The carrying amount of a non-current asset is the amount for which an asset is accounted for after deducting any depreciation and accumulated impairment losses.

Upon initial recognition of an item of property and equipment as an asset, it is further accounted for using one of two methods:

- At initial cost (prime cost) less accumulated depreciation and any accumulated impairment losses;
- At revalued cost (fair value) less accumulated depreciation and any accumulated impairment losses;

Upon initial recognition of an item of property and equipment as an asset belonging to the group "Buildings, structures and transmission devices", it is further accounted for at revalued value.

Upon initial recognition of an item of property and equipment as an asset, except for items belonging to the group "Buildings, structures and transmission devices", it is further accounted for at initial value (prime cost) less accumulated depreciation and any accumulated impairment losses.

An item of property and equipment belonging to the group "Buildings, structures and transmission devices" is revalued if its net book value significantly differs from its fail value at the reporting date. In case of revaluation of one item of the group, all items of property and equipment group, to which the revalued item belongs, are revalued at the same date. Further revaluation is carried out with such regularity so that the net book value at the reporting date does not differ significantly from fair value.

Low-value non-current assets are not subject to revaluation.

Upon initial recognition, the intangible assets are accounted for at initial cost (prime cost) less accumulated amortisation and accumulated impairment losses.

In 2016, the Bank did not pledge property and equipment as collateral for its liabilities.

Purchased (created) intangible assets are recognised at initial cost.

Upon initial recognition, the intangible assets are accounted for at initial cost (prime cost) less accumulated amortisation and accumulated impairment losses.

Procedure for and method of depreciation accrual

Depreciation is a systematic allocation of cost of property, equipment and intangible assets which, which is depreciated (amortized) over their useful life (operation). The Bank independently establishes and reviews the useful lives of items, which are approved by the administrative documents of the Bank's management.

Intangible assets with indefinite useful lives are not subject to amortisation. The Bank considers an intangible asset as one, which has an indefinite useful life, if based on the analysis of all factors (legal, regulatory, contractual, economic, etc.) there is no foreseeable limitation of the period, during which the asset is expected to generate net cash flows to the Bank (for example, the right of permanent use of land plot).

All non-current assets, except for land and antique pieces, non-current assets held for sale and capital investments in progress, are **subject to depreciation**.

Non-current assets may be amortised separately by a component element of an item.

The Bank uses the straight-line method of depreciation, under which the current period charges include always the same part of the initial cost of an item less the residual value during the certain period of their useful lives, except for low-value non-current tangible assets. Low-value non-current tangible assets are depreciated at 100 per cent of their value in the period of commissioning.

The Bank may review the depreciation method applied to property, equipment and intangible assets, if there have been significant changes in the expected form of economic benefits from the use of these assets.

At the end of each year the Bank assess intangible assets with indefinite useful lives for evidence of indefiniteness in respect of limitation of their useful life. If there is no such evidence, the Bank establishes the useful life of such intangible assets.

New methods of depreciation accrual are applied starting from the new fiscal year. At that, such change is stated as a change in accounting estimates.

4.10. Operating lease

Operating lease is a lease, which does not provide for transfer of all risks and rewards of ownership of the asset. Generally, operating lease agreements provide for the transfer to the lessee the right to use non-current assets for the period not exceeding their useful life with mandatory return of such non-current assets to their owner after the expiry of the lease agreement. Non-current assets transferred for operating lease are accounted for as non-current assets of the lessor.

Income and expenses from operating lease are recognised in the respective reporting period and calculated in accordance with the concluded contracts. Amounts of income and expenses from operating lease are described in Note "Administrative and other operating expenses".

4.11. Non-current assets held for sale and disposal groups

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this purpose:

- An asset should be suitable for immediate sale in the condition in which it is at the time of sale on the terms which are usually observed in the sale of such assets;

- The Bank has a plan to sell the asset and initiate a program to identify the buyer and fulfilment of the plan;
- The Bank actively promotes the asset for sale on the market at a reasonable price given their current fair value;
- It is expected that the sale will be completed within one year.

If the Bank acquires ownership of the pledged property for subsequent sale, such assets are classified as held for sale if they meet the above criteria.

Non-current assets held for sale are measured and accounted for at the lower of: carrying amount and fair value less the transaction costs associated with the sale. Such assets are not depreciated. Impairment loss on initial or subsequent write-off of the asset to fair value less costs to sell is recognized in the statement of profit or loss and other comprehensive income.

The Bank continues to classify non-current assets as held for sale if there was no sale during the year due to events or circumstances under which the Bank cannot exercise control, and if there is sufficient evidence that the Bank continues to fulfil the plan to sell the non-current asset.

If at the date of making the decision on recognition of non-current assets as held for sale the above conditions are not met, but will be fulfilled within three months after recognition of the asset, the Bank has the right to classify them as held for sale.

Before the initial classification of assets as held for sale, the Bank assesses the carrying amount of assets, reviews them for impairment, such as non-current assets are accounted for at historical cost (at cost).

Impairment is included to expenses of the reporting period with the increase in the balance sheet of the amount of depreciation of property and equipment and accumulated amortisation of intangible assets.

In the case of decrease in the fair value of non-current assets, the Bank recognises impairment losses, net of costs to sell.

In the case of increase in the fair value of non-current assets net of costs to sell, Bank recognises gain but in the amount not exceeding previously accumulated impairment losses.

If during the valuation of assets held for sale the Bank has not recognised impairment and recovery, the Bank recognises income or expense on the date of their derecognition. When non-current assets are transferred to the category of assets held for sale, the Bank makes adjustment to the carrying amount for amounts of accumulated depreciation, impairment loss with simultaneous recognition of the adjustment in the statement of financial results.

4.12. Borrowings

Borrowings, including due to banks, customer accounts and issued debt securities, are initially recognised at fair value of funds received plus transaction costs directly attributable to the acquisition or issue of a financial liability. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income at the time of termination of the liability, as well as through the process of amortisation.

4.13. Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities with indefinite maturity and amount. Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

4.14. Subordinated debt

Subordinated debt includes ordinary unsecured debt equity instruments (equity components), which according to the contract can not be withdrawn from the Bank earlier then five years, and in case of bankruptcy or liquidation are retuned to an investor upon discharge of claims of all other creditors.

Subordinated debt is initially recognised at fair value of the funds received plus transaction costs directly attributable to the acquisition or issue of the financial liability. After initial recognition, subordinated debt is subsequently measured at amortised cost using the effective interest method. Gains and losses on subordinated debt are recognized in the statement of profit or loss and other comprehensive income at the time of termination of the liability, as well as through the process of amortisation.

4.15. Recognition of income and expenses

Interest income and expenses

Interest income and expenses are recognized on an accrual basis and calculated using the effective interest rate method. Effective interest rate is the rate, which correctly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period (if any), to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fees and commissions, which are an integral part of the effective interest rate of a financial instrument (for loan issuing, for opening of loans accounts, for assessment of the borrower's financial position, assessment and recognition of guarantees, collateral, etc.) together with the related costs associate with the issuance of financial instrument are amortised using the effective interest rate.

When writing-off (partial writing-off) of a financial asset or a group of similar financial assets as a result of impairment loss, interest income is recognised using the interest rate used to discount future cash flows to estimate the impairment loss.

When it is probable that a loan commitment will result in issuance of a loan, commitment fee together with related direct costs are recognised as an adjustment to the effective interest rate of the loan issued. If it is unlikely that the credit line will be used, fees and commissions are recognised as income on a time pro rata basis over the period of commitment.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

1) Fee income earned from services that are provided over a certain period of time.

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

2) Fee income from providing transaction services.

Income from services to third parties is recognised upon completion of the relevant transaction. The amount of fees or components of fees associated with certain types of activity are recognised after verification of compliance with the relevant criteria.

4.16. Income tax

Income tax is determined as current and deferred tax. Current income tax is recognised in the amount calculated for the reporting period in accordance with the tax laws.

Deferred tax liability is the amount of income tax payable in the future periods on taxable temporary difference. Deferred tax assets is the amount of income tax repayable in the future periods on taxable temporary difference. Deferred tax assets and liabilities are calculated at the tax rates, which will be effective during the period in which the assets will be sold or used or liability will be settled.

The Bank recognises the excess of the amount of income tax paid over the amount of income tax payable as income tax receivables.

The Bank offsets the current income tax receivables and liabilities, if the liability is settled as offset of these receivables.

Advance payments on income tax is calculated without filing an income tax return.

4.17. Share capital and share premium

The share capital is the paid by shareholders liabilities on contributions under a subscription for shares, the value of which is registered as per the procedure established by law. The share capital is stated at the initial (nominal) value.

Expenses directly attributable to the issue of new shares of the Bank, in accordance with the requirements of IFRS 32 "*Financial Instruments: Presentation*, are accounted for as a deduction from equity to the extent they are additional costs directly attributable to equity transactions, and which otherwise could have been avoided.

The excess of fair value (placement price) of contributions over the nominal value of shares issued is recognised in the Bank's equity as share premium (emission difference).

4.18. Translation of foreign currency

Transactions in foreign currencies are initially recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into UAH at the official NBU exchange rate at the respective reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as translation differences.

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated as they occur. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. If gain or loss on a non-monetary item is recognised in other comprehensive income, any currency component of that gain or loss will be recognised directly in other comprehensive income. When gain or loss on a non-monetary item is recognised in profit or loss, any currency component of that gain or loss is recognized in profit or loss.

4.19. Offsetting of assets and liabilities

The Bank offsets financial asset and financial liability and reports the net amount in the statement of financial position if and only if:

a) There is a legally enforceable right to set off the recognised amounts;

b) There is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The right to set-off is determined by contract or otherwise legal right of a debtor to repay or otherwise withdraw the entire amount (or any portion) payable to a creditor by offsetting this amount against the amount due from the creditor.

The simultaneous repayment under two financial instruments may occur, for example, by transactions through the clearing house under the conditions of organised financial market or exchange without intermediaries. In such circumstances, the cash flows actually are equivalent to one net amount and are not exposed to credit risk or liquidity risk.

In the reporting period, the Bank did not carry out any transactions on offsetting of certain assets and liabilities.

4.20. Operating segment information

A segment is a distinguishable component of the Bank's business that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank presents separately the reportable segments, if most of the income of the segment is generated by banking activities outside the segment and this segment income makes 10% or more of total income.

The Bank's primary format for reporting the segment information is business segments.

The majority of the Bank's transactions are carried out in Ukraine.

The Bank recognises the following reportable segments:

- ► Services to corporate clients;
- ► Service to individuals;
- ► Services to banks;
- ► Other transactions.

"Other transactions" segment is important for the Bank as a whole (ensures the activities of other segments, etc.) and information about it is material.

The Bank recognises as income of the reportable segment the income directly attributable to the segment and the relevant portion of the Bank's income, which can be attributed to the segment from external activities or transactions between other segments within one bank. Reportable segments income is stated net of value added tax, excise duty, other duties and deductions from income. Reportable segment income does not include income from extraordinary events and income tax benefit. The Bank recognises as expenses of the reportable segment the expenses related to the main business of the segment, which are directly attributable to the segment, and relevant portion of expenses, which can be reasonably attributed to the segment, including the expenses from external activities and expenses related to transactions between other segments within one bank.

However, if the expenses at the level of the Bank relate only to one segment, the Bank recognises such expenses and segment expenses (if they relate to operational activities of the segment and can be directly attributable to the segment or reasonably allocated to it).

4.21. Related party transactions

The Bank recognises as the related party a party, which:

1) Directly or indirectly controls or is controlled by, or is under common control with the Bank or has a participation interest in the Bank, which enables it to have a significant impact on the Bank;
2) Is an association of the Bank;
3) Is a joint venture, in which the Bank is a controlling participant;
4) Is a member of the key management personnel of the Bank;
5) Is a immediate relative of a person specified in 1) or 4);
6) Is an entity which controls it, jointly controls or which has a significant impact or significant voting power in such entity, directly or indirectly, person named specified in 1)-5);
7) Is a post-employment benefit plan of employees of the Bank or any entity, which is a related party of the Bank (post-employment benefits: pensions, other retirement benefits, life insurance and medical care upon retirement).

The Bank discloses information on related parties in accordance with IAS 24 "Related Party Disclosers".

Note 5. Adoption of new or revised standards and interpretations

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 also allows 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 fundamentally changes 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 credit related 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 adoption 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 will 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 an 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 recognised 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 recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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 financial results.

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 Share-based Payment

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.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration. Under IFRS (IAS) 21, the date of the transaction for the purpose of determining the exchange rate used in the initial recognition of the asset, expense or income (or their portion) is the date on which an organisation initially recognises non-monetary asset or non-monetary liability arising as a result of advance consideration in foreign currency. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. IFRIC 22 applies only when an organisation recognises non-monetary assets or non-monetary liability arising from prepayment. IFRIC 22 does not contain practical guidance for determining the accounting object as monetary or non-monetary. In general, the payment or receipt of compensation made on a prepaid basis, result in the recognition of non-monetary asset or non-monetary liability, but they also can result in occurrence of monetary asset or liability. An organisation may need to use professional judgment in determining whether a particular accounting object is monetary or non-monetary.

Transfers of Investment Property - Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. Prior to the amendments, IFRS (IAS) 40 had no separate guidance on transfer to/from investment property in respect of assets under construction. The amendment clarifies that there was no intention to prohibit the transfer to the investment property of investment property items being under construction and classified as inventory in case of obvious changes in the nature of use. IFRS (IAS) 40 was amended to support the procedure for application of the principles of transfer to/from investment property in accordance with IFRS (IAS) 40 with a specification that the transfer to/from investment can be made only in case of change of the nature of use of the property; and such change of the nature of use will require evaluation of the possibility of classification of property as investment property. Such change of the nature of use should be supported by facts. Currently, the Bank is reading the provisions of these standards and considers their impact on the Bank and the timing of their application.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Cash in hand	1,056	23
2	Balance with the National Bank of Ukraine	1,270	182
3	Correspondent accounts, deposits and overnight loans with banks	158	154
3.1	Ukraine	158	154
3.2	other countries	-	-
4	NBU deposit certificates	86,059	-
5	**Total cash and cash equivalents**	**88,543**	**359**

There are no restrictions on the use of cash.

Note 7. Due from other banks

Table 7.1. Due from other banks (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Deposits with other banks	260	833
1.1	short-term deposits	260	833
2	Allowance for impairment of deposits with other banks	(260)	(833)
3	Placements on correspondent accounts with other banks	13	92,013
4	Allowance for impairment of due from other banks	(13)	(923)
5	**Total due from other banks**	**-**	**91,090**

Table 7.2. Analysis of credit quality of due from other banks for 2016 (UAH'000)

Line	Description	Deposits	Placements on correspondent accounts with other banks	Loans	Total
1	**2**	**3**	**4**	**5**	**6**
1	Individually impaired funds	260	13	-	**273**
1.1.	184 to 365 (366) days overdue	260	13	-	**273**
2	Due from other banks before allowances	260	13	-	**273**
3	Allowance for impairment of due from other banks	(260)	(13)	-	**(273)**
4	**Total due from other banks less allowances**	**-**	**-**	**-**	**-**

Table 7.3. Analysis of credit quality of due from other banks for 2015 (UAH'000)

Line	Description	Deposits	Placements on correspondent account	Loans	Total
1	**2**	**3**	**4**	**5**	**6**
1	Not overdue and not impaired	-	92,013	-	**92,013**
1.1	with other banks of Ukraine	-	92,013	-	**92,013**
2	Individually impaired funds	833	-	-	**833**
2.1.	more than 31 days overdue	833	-	-	**833**
3	Due from other banks before allowances	833	92,013	-	**92,846**
4	Allowance for impairment of due from other banks	(833)	(923)	-	**(1,756)**
5	**Total due from other banks less allowances**	**-**	**91,090**	**-**	**91,090**

Table 7.4. Movements in the allowance for impairment of due from other banks (UAH'000)

Line	Movement in allowances	2016	2015
1	**2**	**3**	**4**
1	**Allowance for impairment at the beginning of the period**	**(1,756)**	**-**
2	(Increase)/decrease in allowance for impairment during the reporting period	1,483	(1,756)
3	**Allowance for impairment at the end of the period**	**(273)**	**(1,756)**

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Corporate loans	17,153	26,268
2	Loans to individuals for current needs	-	6,795
3	Allowance for loan impairment	(4,593)	(32,786)
4	**Total loans less allowances**	**12,560**	**277**

The asset is presented with regard to accrued and not received interest income, including overdue interest income comprising UAH 256 thousand as at the reporting date.

As at 31 December 2016, the concentration of loans issued by the Bank to ten largest borrowers amounted to UAH 17,153 thousand (100% of the total loan portfolio) (2015: UAH 33,063 thousand (100% of the total loan portfolio). For these loans the allowance of UAH 4,593 thousand was created (2015: UAH 32,786 thousand).

Table 8.2. Analysis of changes in allowances for loans for 2016 (UAH'000)

Line	Movement in allowances	Corporate loans	Loans to individuals for current needs	Total
1	**2**	**3**	**4**	**5**
1	**Balance at the beginning of the period**	**(25,991)**	**(6,795)**	**(32,786)**
2	Decrease in allowance for impairment during the period	6,605	-	**6,605**
3	Write-off of bad loans against the allowance	14,793	6,795	**21,588**
4	**Balance at the end of the period**	**(4,593)**	**-**	**(4,593)**

Table 8.3. Analysis of changes in allowances for loans for 2015 (UAH'000)

Line	Movement in allowances	Corporate loans	Loans to individuals for current needs	Total
1	2	3	4	5
1	**Balance at the beginning of the period**	**-**	**-**	**-**
2	Increase in allowance for impairment during the period	(25,991)	(6,795)	**(32,786)**
3	**Balance at the end of the period**	**(25,991)**	**(6,795)**	**(32,786)**

Table 8.4. Loans structure by types of economic activity (UAH'000)

Line	Type of economic activity	2016		2015	
		Amount	%	Amount	%
1	2	3	4	5	6
1	Wholesale and retail trade, repair of motor vehicles, household appliances and personal use items	12,560	73	6,779	20
2	Individuals	-	-	6,795	21
3	Supply of electricity, gas, steam and conditioned air	4,593	27	4,593	14
4	Other	-	-	14,896	45
5	**Loans and advances to customers before allowance**	**17,153**	**100**	**33,063**	**100**

Table 8.5. Information on loans by types of collateral for 2016 (UAH'000)

Line	Item description	Corporate loans	Loans to individuals for current needs	Total
1	2	3	4	5
1	Unsecured loans	15,169	-	**15,169**
2	Loans collateralised by:	1,984	-	**1,984**
2.1	real estate	1,984	-	**1,984**
3	**Loans and advances to customers before allowance**	**17,153**	**-**	**17,153**

Table 8.6. Information on loans by types of collateral for 2015 (UAH'000)

Line	Item description	Corporate loans	Loans to individuals for current needs	Total
1	2	3	4	5
1	Loans collateralised by:	26,268	6,795	**33,063**
1.1	real estate	25,019	6,795	**31,814**
1.1.1	including residential property	786	-	**786**
1.2	other assets	1,249	-	**1,249**
2	**Loans and advances to customers before allowance**	**26,268**	**6,795**	**33,063**

The note has been prepared taking into account the concluded pledge/mortgage agreements on loans to customers, which have been transferred from the insolvent bank PJSC "OMEGA BANK". As the loans matured in 2008-2012, there are legal risks as to the possibility of foreclosure on collateral in connection with the expiration of the limitation period.

Table 8.7. Analysis of credit quality of loans for 2016 (UAH'000)

Line	Movement in allowances	Corporate loans	Loans to individuals for current needs	Total
1	**2**	**3**	**4**	**5**
1	Neither past due nor impaired	12,560	-	**12,560**
1.1	loans to small companies	12,560	-	**12,560**
2	Individually impaired loans	4,593	-	**4,593**
2.1	more than 366 (367) days overdue	4,593	-	**4,593**
3	Total loans after allowance	17,153	-	**17,153**
4	Allowance for impairment of loans	(4,593)	-	**(4,593)**
5	**Total loans less allowances**	**12,560**	-	**12,560**

The overdue period of loans is stated taking into account the maturities established by the concluded agreements, the rights of claim under which were accepted by the Bank from insolvent bank OJSC "OMEGA BANK".

Table 8.8. Analysis of credit quality of loans for 2015 (UAH'000)

Line	Movement in allowances	Corporate loans	Loans to individuals for current needs	Total
1	**2**	**3**	**4**	**5**
1	Individually impaired loans	26,268	6,795	**33,063**
1.1	more than 366 (367) days overdue	26,268	6,795	**33,063**
2	Total loans after allowance	26,268	6,795	**33,063**
3	Allowance for impairment of loans	(25,991)	(6,795)	**(32,786)**
4	**Total loans less allowances**	**277**	-	**277**

The overdue period of loans is stated taking into account the maturities established by the concluded agreements, the rights of claim under which were accepted by the Bank from insolvent bank OJSC "OMEGA BANK".

Table 8.9. Effect of the collateral value on loan quality for 2016 (UAH'000)

Line	Item description	Carrying amount of loans	Expected cash flows from sale of pledged collateral	Effect collateral
1	**2**	**3**	**4**	**5 = 3 − 4**
1	Corporate loans	17,153	6,463	10,690
2	Loans to individuals for current needs	-	-	-
3	**Total loans**	17,153	6,463	**10,690**

Table 8.10. Effect of the collateral value on loan quality for 2015 (UAH'000)

Line	Item description	Carrying amount of loans	Expected cash flows from sale of pledged collateral	Effect collateral
1	**2**	**3**	**4**	**5 = 3 − 4**
1	Corporate loans	26,268	-	26,268
2	Loans to individuals for current needs	6,795	-	6,795
3	**Total loans**	**33,063**	-	**33,063**

During the reporting year, the Bank foreclosed on mortgage property of the total value of UAH 105,416 thousand. These property items are accounted for by the Bank as a part of non-current assets held for sale and property repossessed by the Bank.

Pledged property valuation methods

When calculating the allowance, the Bank uses market (fair) value of collateral in the form of real estate property, vehicles and objects in the form of integral property complex, equipment, biological assets, property rights to real estate, products, goods, future harvest, offspring of animals based on the valuation of such property carried out by independent appraiser. If from date of last valuation there have been significant changes in operating conditions and physical condition of pledged property and/or similar property market conditions, the Bank carries out the revaluation of such property at least once every twelve months in case of the pledge of property, equipment and vehicles and once every six months in case of the pledge of other assets.

When determining the market (fair) value of collateral, the Bank sets the time frame of such property sale lifetime of such property not more than 360 days.

Note 9. Investment property

Table 9.1. Investment property measured at fair value (UAH'000)

Line	Item description	Reporting period	Prior period
1	2	3	4
1	**Fair value of investment property at the beginning of the period**	**452,213**	**-**
2	Purchases	-	413,907
3	Transfer to non-current assets held for sale and disposal groups	(302,456)	36,306
4	Disposals	(89,466)	-
5	Fair value gains	108,486	2,000
6	Transfer from assets held for sale	31,885	-
7	**Fair value of investment property at the end of the period**	**200,662**	**452,213**

The fair value of investment property is determined on the basis of findings of independent appraisers with appropriate professional qualifications and experience in valuation of similar items in the territory of Ukraine.

Table 9.2. Amounts recognised in the Statement of profit and loss and other comprehensive income (UAH'000)

Line	Income and expenses	2016	2015
1	2	3	4
1	Income from the lease of investment property	565	260

Note 10. Property, equipment and intangible assets

Table 10.1 Premises, equipment and intangible assets (UAH'000)

Line	Item description	Machinery and equipment	Motor vehicles	Fixtures and fittings (furniture)	Other non-current tangible assets	Intangible assets	Total
1	2	3	4	5	6	7	8
1	Carrying amount as at the beginning of prior year	-	-	-	-	-	**-**
2	Additions	14	-	13	199	293	**519**
3	Disposals				(6)		**(6)**
4	Depreciation charges	(2)	-	(1)	(193)	-	**(196)**
5	Carrying amount as at the end of prior year (as at the beginning of the reporting year)	12	-	12	-	293	**317**
5.1	Cost	14	-	13	193	293	**513**
5.2	Depreciation as at the end of reporting period	(2)	-	(1)	(193)	-	**(196)**
6	Additions	273	616	204	171	177	**1,441**
7	Disposals				(37)		**(37)**
8	Depreciation charges	(5)	-	(4)	(134)	-	**(143)**
9	Carrying amount as at the end of reporting period	280	616	212	-	470	**1,578**
9.1	Cost	287	616	217	327	470	**1,917**
9.2	Depreciation as at the end of reporting period	(7)	-	(5)	(327)	-	**(339)**

The Bank does not amortise intangible assets on the ground that all intangible assets are used by the Bank under the licenses not limited by the term of use, therefore, the Bank recognises all software licenses as intangible assets with indefinite useful life, which are not subject to amortisation.

Note 11. Other financial assets

Table 11.1. Other financial assets (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Other financial assets	60,874	60,175
2	Allowance for impairment of other financial assets	(60,788)	(12,084)
3	**Total other financial assets less allowances**	**86**	**48,091**

Other financial assets include the following debts:
- UAH 60,092 thousand – result of recourse against an entity for obligations performed the Bank;
- UAH 580 thousand – receivables under the agreement for purchase and sale of receivables;
- UAH 202 thousand – other financial assets.

Table 11.2. Analysis of changes in allowances for impairment of other financial assets for 2016 (UAH'000)

Line	Movement in allowances	Other financial assets	Total
1	**2**	**3**	**4**
1	**Balance at the beginning of the period**	**(12,084)**	**(12,084)**
2	Increase in allowance for impairment during the period	(48,704)	**(48,704)**
3	**Balance at the end of the period**	**(60,788)**	**(60,788)**

Table 11.3. Analysis of changes in allowances for impairment of other financial assets for 2015 (UAH'000)

Line	Movement in allowances	Other financial assets	Total
1	**2**	**3**	**4**
1	**Balance at the beginning of the period**	**-**	**-**
2	Increase in allowance for impairment during the period	(12,084)	**(12,084)**
3	**Balance at the end of the period**	**(12,084)**	**(12,084)**

Table 11.4. Analysis of credit quality of other financial assets for 2016 (UAH'000)

Line	Item description	Other financial assets	Total
1	**2**	**3**	**4**
1	Neither past due nor impaired debt	5	**5**
1.1	small company	5	**5**
2	Individually impaired debt overdue	60,869	**60,869**
2.1	up to 31 days	9	**9**
2.2	32 to 92 days	147	**147**
2.3	93 to 183 days	2	**2**
2.4	184 to 365 (366) days	37	**37**
2.5	over 365 (366) days	60,674	**60,674**
3	Total other financial assets before allowances	60,874	**60,874**
4	Allowance for impairment of other financial assets	(60,788)	**(60,788)**
5	**Total other financial assets less allowances**	**86**	**86**

Table 11.5. Analysis of credit quality of other financial assets for 2015 (UAH'000)

Line	Item description	Other financial assets	Total
1	**2**	**3**	**4**
1	Individually impaired debt overdue	60,175	**60,175**
1.1	up to 31 days	60,092	**60,092**
1.2	32 to 92 days	1	**1**
1.3	93 to 183 days	82	**82**
2	Total other financial assets before allowances	60,175	**60,175**
3	Allowance for impairment of other financial assets	(12,084)	**(12,084)**
4	**Total other financial assets less allowances**	**48,091**	**48,091**

Note 12. Other assets

Table 12.1. Other assets (UAH'000)

Line	Item description	Reporting period	Prior period
1	**2**	**3**	**4**
1	Repossessed collateral	29,551	-
2	Prepayments for services	1,470	44
3	Other assets	446	312
4	Receivables for purchase of assets	136	-
5	Allowance for other assets	(28)	-
6	**Total other assets less allowances**	**31,575**	**356**

Other assets include:

- deferred expenses in the amount of UAH 434 thousand;
- stocks of material assets held by accountable persons in the amount of UAH 9 thousand;
- receivables on taxes and mandatory payments other than income tax in the amount of UAH 3 thousand.

Note 13. Non-current assets held for sale

Table 13.1. Non-current assets held for sale and disposal groups (UAH'000)

Line	Item description	Reporting period	Prior period
1	**2**	**3**	**4**
1	**Non-current assets held for sale**		
1.1	Land, real estate	2,460	16,230
2	**Total non-current assets held for sale**	**2,460**	**16,230**

The Bank accounts for 2 Service Stations buildings located in Rivnenska oblast as non-current assets held for sale. The information on their sale has been published.

The Bank's management believes that as at 31 December 2016 the fair value of assets held for sale represents their market value.

Note 14. Customer accounts

Table 14.1. Customer accounts (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Other legal entities	66,368	30,196
1.1	current accounts	65,014	30,106
1.2	term accounts	1,354	90
2	Individuals	2,552	2,585
2.1	current accounts	2,552	2,585
3	**Total customer accounts**	**68,920**	**32,781**

As at 31 December 2016, customer accounts in the amount of UAH 56,623 thousand (82.16%) included amounts due to ten largest customers of the Bank (as at 31 December 2015: UAH 26,749 thousand (81.60%)).

Table 14.2. Structure of customer accounts by types of business activity. (UAH'000)

Line	Type of economic activity	2016		2015	
		Amount	**%**	**Amount**	**%**
1	**2**	**3**	**4**	**5**	**6**
2	Production and distribution of electricity, gas and water	16,843	24	2	-
	Trade, repair of motor vehicles, household appliances and personal use items	8,991	13	25,178	77
	Individuals	2,552	4	2,585	8
3	Transactions with real estate, leasing, engineering and provision of services	413	1	48	-
5	Agriculture, hunting, forestry	260	-	157	1
6	State administration	-	-	1	-
7	Other	39,861	58	4,810	14
8	**Total customer accounts**	**68,920**	**100**	**32,781**	**100**

Breakdown of line 7 "Other" (UAH'000)

Line	Type of economic activity	2016		2015	
		Amount	**%**	**Amount**	**%**
1	Construction	29,095	73	1,449	22
2	Finance and insurance	8,717	22	148	3
3	Other	2,049	5	3,213	75
4	**Total**	**39,861**	**100**	**4,810**	**100**

Customer accounts accounted for at the reporting date on balance sheet account 2602 "Cash in settlements of entities" in the amount of UAH 1,263 thousand were pledged as cash collateral (coverage) for guarantees issued by the Bank.

Note 15. Other financial liabilities

Table 15.1. Other financial liabilities (UAH'000)

Line	Item description	2016	2015 (as reclassified)
1	**2**	**3**	**4**
1	Other payables on transactions with the Bank's customers	8,698	217,650
2	Agent services	2,516	-
3	Commission for guarantees issued	964	-
4	Non-performing customer accounts	860	1,147
5	Information and consulting services	850	-
6	Other	327	5,741
7	**Total other financial liabilities**	**14,215**	**224,538**

The balance of other financial liabilities is comprised of:

- UAH 100 thousand − guarantee deposit placed by the entity under the Real Estate Lease Agreement concluded with the Bank;
- UAH 64 thousand – expenses for maintenance of the Bank's operating system;
- UAH 24 thousand − utility costs;
- UAH 18 thousand − telecommunication expenses;
- UAH 11 thousand − auto rental expenses;
- UAH 110 thousand – other accrued expenses.

In accordance with Acceptance Act #1/07/2015-A-3 in respect of transfer of assets and liabilities of the insolvent bank PJSC "OMEGA BANK", liabilities in UAH equivalent in the amount of UAH 215,058,853.49 were put onto the books of Transitional Bank PJSC "RWS BANK" on 3 July 2015. In pursuance of the terms of agreements, the Bank's liabilities were returned in full.

Note 16. Other liabilities

Table 16.1. Other liabilities (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Deferred income	4,933	5
2	Amounts payable for services	457	688
3	Payables on settlements with the Bank's employees	359	31
4	Payables on taxes and duties, other than income tax	112	52
5	Other liabilities	–	56
6	**Total**	**5,861**	**832**

Note 17. Share capital and issue profit/loss (share premium)

Table 17.1. Share capital and issue profit/loss (share premium) (UAH'000)

Line	Item description	Number of outstanding shares (ths. pcs)	Ordinary shares	Total
1	**2**	**3**	**4**	**5**
1	**Balance at the beginning of prior period**	-	-	-
2	Issue of new shares	12,152	121,522	**121,522**
3	Balance at the end of prior period (at the beginning of the reporting period)	12,152	121,522	**121,522**
4	Increase in nominal amount of shares	12,152	178,517	**178,517**
5	**Balance at the end of reporting period (COB 31 December 2016)**	**12,152**	**300,039**	**300,039**

On 29 February 2016, the sole shareholder of the Bank decided to increase the share capital by UAH 178,517 thousand through increasing the nominal value of shares by UAH 14.69 owing to the allocation of the portion of profit for 2015 to the share capital.

The Bank had no share premium in the reporting and prior years.

As at 31 December 2016, the nominal value of one share was UAH 24.69.

The Bank did not issue preferred shares, no dividends were paid.

At the end of the reporting year, there are no restrictions on ownership of shares.

Note 18. Maturity analysis of assets and liabilities

Table 18.1. Maturity analysis of assets and liabilities (UAH'000)

Line	Item description	Notes	2016			2015		
			Less than 12 month	More than 12 month	Total	Less than 12 month	More than 12 month	Total
1	2	3	4	5	6	7	8	9
	Assets							
1	Cash and cash equivalents	6	88,543	-	88,543	359	-	**359**
2	Due from other banks	7	-	-	-	91,090	-	**91,090**
3	Loans and advances to customers	8	12,560	-	12,560	277	-	**277**
4	Investment property	10	-	200,662	200,662	-	452,213	**452,213**
5	Property, equipment and intangible assets	11	-	1,578	1,578	-	317	**317**
6	Other financial assets	12	86	-	86	48,091	-	**48,091**
7	Other assets	13	31,575	-	31,575	356	-	**356**
8	Non-current assets held for sale and disposal groups	14	2,460	-	2,460	16,230	-	**16,230**
9	**Total assets**		**135,224**	**202,240**	**337,464**	**156,403**	**452,530**	**608,933**
	Liabilities							
10	Customer accounts	15	68,920	-	68,920	32,781	-	**32,781**
11	Income tax liabilities		-	-	-	41,244	-	**41,244**
12	Other financial liabilities	16	14,215	-	14,215	224,538	-	**224,538**
13	Other liabilities	17	5,861	-	5,861	832	-	**832**
14	**Total liabilities**		**88,996**	**-**	**88,996**	**299,395**	**-**	**299,395**

Note 19. Interest income and expenses

Table 19.1. Interest income and expenses (UAH'000)

Line	Item description	2016	2015 (as reclassified)
1	2	3	4
	Interest income		
1	NBU deposit certificates	3,190	**-**
2	Loans and advances to customers	2,804	3,912
3	Due from other banks	21	4,303
4	**Total interest income**	**6,015**	**8,215**
	Interest expense		
5	Current accounts	(202)	**-**
6	Term deposits of legal entities	(4)	**-**
7	Other	(553)	**-**
8	**Total interest expense**	**(759)**	**-**
9	**Net interest income/(expense)**	**5,256**	**8,215**

Note 20. Fee and commission income and expense

Table 20.1. Fee and commission income and expense (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
	Fee and commission income		
1	Guarantees issued	276	-
2	Clearing and settlement transactions	220	16
3	Other	166	21
4	**Total fee and commission income**	**662**	**37**
	Fee and commission expense		
4	Clearing and settlement transactions	(42)	(2)
5	Other	(1)	-
6	**Total fee and commission expense**	**(43)**	**(2)**
7	**Net fee and commission income/(expense)**	**619**	**35**

Note 21. Other operating income

Table 21.1. Other operating income (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Enjoyment of the rights of mortgage holder	68,786	64,605
2	Income received from repayment of loans	29,198	-
3	Income from operating lease	565	260
4	Other	1,621	203,055
5	**Total operating income**	**100,170**	**267,920**

Other operating income includes:

- UAH 459 thousand – proceeds from closing the accounts, which were not claimed by customers 5 years after the expiry of the limitation period;
- UAH 265 thousand – result from the sale of non-current assets held for sale and property repossessed by the Bank as mortgage holder;
- UAH 403 thousand – compensation utility costs on leased-out premises;
- UAH 338 thousand – result from the sale of investment property;
- UAH 138 thousand – income from operating lease of safe-deposit boxes;
- UAH 13 thousand – income for installation of remote servicing system
- UAH 5 thousand – result from the sale of property and equipment;

Note 22. Administrative and other operating expenses

Table 22.1. Administrative and other operating expenses (UAH'000)

Line	Item description	2016	2015
1	**2**	**3**	**4**
8	Sale of non-current assets	(201,807)	-
9	Other operating expenses	(17,352)	(195)
1	Personnel expenses	(8,111)	(756)
3	Expenses for maintenance of property, equipment and intangible assets, telecommunications and other operating services	(2,739)	(764)
7	Guard expenses	(1,435)	(180)
5	Payment of other taxes and duties, other than income tax	(1,298)	(79)
6	Expenses for financial advisory services received	(1,101)	(235)
4	Operating lease expenses	(1,058)	(193)
2	Depreciation	(8)	(202)
10	Other	(181)	(232)
11	**Total administrative and other operating expenses**	**(235,090)**	**(2,836)**

Other operating expenses include:

- UAH 10,721 thousand − property item impairment;
- UAH 2,514 thousand − expenses for other information services;
- UAH 1,108 thousand − expenses for information and consulting services;
- UAH 1,646 thousand − notary services;
- UAH 647 thousand − audit expenses;
- UAH 238 thousand – allocation to expense of the value of cheque books upon the results of inventory;
- UAH 142 thousand – expenses for markdown of inventory for sale;
- UAH 88 thousand – expenses for independent valuation of pledged property;
- UAH 45 thousand – expenses for access to information bases;
- UAH 25 thousand − expenses for registration and licensing;
- UAH 24 thousand − business trip expenses;
- UAH 3 thousand − expenses for services in the securities market;
- UAH 39 thousand – other operating expenses.

Note 23. Income tax expense

Table 23.1. Income tax expense (UAH'000)

Line	Item description	2016	2015
1	2	3	4
1	Current income tax	-	(41,314)
2	Change in deferred income tax	-	-
3	**Total income tax expense**	**-**	**(41,314)**

In 2016 and 2015, the income tax rate applied to the Bank's income was 18%.

Table 23.2. Reconciliation of financial accounting income (loss) and tax accounting income (loss)

(UAH'000)

Line	Item description	2016	2015
1	2	3	4
1	**Income before tax**	**(61,070)**	**229,330**
2	Theoretical tax charge at statutory rate	10,993	(41,279)
	Adjustment of financial accounting income (loss)		
3	Tax-deductible expenses recognised in financial accounting (amount of accrued depreciation of property, equipment and intangible assets)	-	(35)
4	Changes in deferred tax assets not recognised in the statement of financial position	(10,993)	
5	**Income tax expense**	**-**	**(41,314)**

Table 23.3. Tax consequences related to recognition of deferred tax assets and deferred tax liabilities for 2016
(UAH'000)

	31 December 2015	Charged to profit or loss	31 December 2016
Tax effect of deductible temporary differences			
Allowance for loan impairment	-	8,194	8,194
Tax losses carry forward	-	2,799	2,799
Deferred tax asset, gross	**-**	**10,993**	**10,993**
Deferred tax assets not recognised in the statement of financial position	-	(10,993)	(10,993)
Deferred tax asset	**-**	**-**	**-**

Note 24. Net earnings/(loss) per ordinary and preferred share

Table 24.1. Net and adjusted earnings/(loss) per ordinary and preferred share (UAH'000).

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Earnings/(loss) attributable to holders of the Bank's ordinary shares	(61,070)	188,016
2	Net income/(loss) for the year	(61,070)	188,016
3	Annual average number of ordinary outstanding shares (ths. pcs.)	12,152	7,835
4	**Net and adjusted earnings/(loss) per ordinary share (UAH'000).**	**(5.02)**	**24**

The amount of earnings/(loss) per share was calculated by dividing the net income/(loss) attributable to the Bank's shareholders by the weighted average number of ordinary shares outstanding during the year. The Bank has no shares which may reduce earnings per share. Thus, the adjusted net earnings/(loss) per share is equal to earnings per share attributable to shareholders-owners of ordinary shares.

Net earnings/(loss) do not differ from the adjusted net earnings/(loss).

Table 24.2. Calculation of income/(loss) attributable to holders of ordinary and preferred shares (UAH'000).

Line	Item description	2016	2015
1	**2**	**3**	**4**
1	Income/(loss) for the year attributable to the Bank's owners	(61,070)	188,016
2	Retained earnings/(loss) for the year	(61,070)	188,016
3	Retained earnings/(loss) for the year attributable to holders of ordinary shares depending on the terms of shares	(61,070)	188,016
4	**Income/(loss) for the year attributable to the shareholders-owners of ordinary shares**	**(61,070)**	**188,016**

Note 25. Operating segments

An operating entity is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker, for which discrete financial information is available.

A segment is a distinguishable component of the Bank's business that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards and ensures profitability.

The Bank's primary format for reporting the segment information is business segments.

The Bank recognises the following reportable segments: corporate banking, retail banking and treasury.

Corporate banking represents the tools of account (current, deposit) management, granting loans, overdrafts and other types of financing, trade financial instruments, structured financing, transactions in foreign currency and banknotes.

Retail banking represents the banking services to individuals, current, savings and deposit accounts of individuals, credit and debit cards, mortgage loans and loans for current needs.

Treasury represents transactions on loan and currency markets, transactions with securities (both on behalf of clients and at own expense), relationships with professional financial market participants - banks, insurance companies, financial intermediaries of capital markets.

The Bank recognises as income of the reportable segment the income directly attributable to the segment and the relevant portion of the Bank's income, which can be attributed to the segment from external activities or transactions between other segments within one bank. Reportable segments income is stated net of value added tax, excise duty, other duties and deductions from income. Reportable segment income does not include income from extraordinary events and income tax benefit.

The Bank recognises as expenses of the reportable segment the expenses related to the main business of the segment, which are directly attributable to the segment, and relevant portion of expenses, which can be reasonably attributed to the segment, including the expenses from external activities and expenses related to transactions between other segments within one bank.

Results of dissimilar segments are included in unallocated items of "Unallocated amounts" using which the relevant results of reportable segments and the Bank as a whole are reconciled.

Unallocated items also include expenses not included in segment expenses: income tax expense, general administrative expenses and other expenses arising at the Bank's level and relating to the Bank as a whole.

Table 25.1. Income, expenses and results of reportable segments for 2016 (UAH'000)

Line	**Item description**	**Name of reportable segments**			**Other segments and transactions**	**Total**
		Corporate banking	**Retail banking**	**Treasury**		
1	**2**	**3**	**4**	**5**	**6**	**7**
	Income from external clients					
1	Interest income	2,804	-	3,211	-	**6,015**
2	Fee and commission income	600	62	-	-	**662**
3	Other operating income	30,317	-	-	69,853	**100,170**
	Total segment income	**33,721**	**62**	**3,211**	**69,853**	**106,847**
4	Interest expense	(206)	-	-	(553)	**(759)**
5	Charges to allowance for impairment of due from other banks	6,605	-	1,483	-	**8,088**
6	Charges to allowance for impairment of receivables	(48,732)	-	-	-	**(48,732)**
7	Gains less losses from dealing in foreign currencies	105	35	-	-	**140**
8	Gains less losses from translation of foreign currencies	-	-	-	(7)	**(7)**
9	Gains less losses from revaluation of investment property items	-	-	-	108,486	**108,486**
10	Fee and commission expense	-	-	(43)	-	**(43)**
11	Administrative and other operating expenses	(9,592)	-	-	(225,498)	**(235,090)**
	Segment result					
12	**Income/(loss)**	**(18,099)**	**97**	**4,651**	**(47,719)**	**(61,070)**

Data of line 4 "Other operating income" in the amount of UAH 69,853 thousand comprise:

- UAH 68,786 thousand − enjoyment of rights of mortgage holder;
- UAH 459 thousand – proceeds from closing the accounts, which were not claimed by customers 5 years after the expiry of the limitation period;
- UAH 338 thousand – result from the sale of investment property;
- UAH 265 thousand – result from the sale of non-current assets held for sale and property repossessed by the Bank as mortgage holder;
- UAH 5 thousand – result from the sale of property and equipment;

Data of line 11 "Administrative and other operating expenses" in the amount of UAH 225,498 thousand comprise:

- UAH 201,807 thousand – sale of non-current assets;
- UAH 10,721 thousand − impairment of property item;
- UAH 8,111 thousand − personnel expenses;
- UAH 2,747 thousand – expenses for maintenance of property, equipment and intangible assets.

- UAH 1,298 thousand – payment of other taxes and duties, other than income tax
- UAH 814 thousand – other operating expenses.

Table 25.2. Assets and liabilities of reportable segments for 2016 (UAH'000)

Line	Item description	Name of reportable segments			Other segments and transactions	Total
		Corporate banking	Retail banking	Treasury		
1	2	3	4	5	6	7
	Segment assets					
1	Segment assets	12,560	-	86,059	-	**98,619**
2	Total segment assets	12,560	-	86,059	-	**98,619**
3	Unallocated assets	-	-	-	247,038	**247,038**
4	**Total assets**	**12,560**	**-**	**86,059**	**247,038**	**345,657**
	Segment liabilities					
5	Segment liabilities	66,368	2,552	-	-	**68,920**
6	Total segment liabilities	66,368	2,552	-	-	**68,920**
7	Unallocated liabilities	-	-	-	20,076	**20,076**
8	**Total liabilities**	**66,368**	**2,552**	**-**	**20,076**	**88,996**

Data of line 3 "Unallocated assets" in the amount of UAH 247,038 thousand comprise:

- UAH 200,662 thousand − investment property;
- UAH 39,854 thousand – receivables on business transactions, taxes, other assets;
- UAH 2,484 thousand − cash on hand and placements on correspondent accounts with other banks;
- UAH 2,460 thousand – non-current assets held for sale;
- UAH 1,578 thousand – property, equipment and intangible assets.

Data of line 7 "Unallocated liabilities" in the amount of UAH 20,075 thousand comprise payables on business transactions, taxes and other liabilities.

The bank does not disclose information on the operating segments for 2015 as being in a transitional status the Bank did not carry out any activities.

Table 25.3. Information on geographical regions (UAH'000)

Line	Item description	2016		
		Ukraine	Other countries	Total
1	Income from external clients	106,847	-	**106,847**
2	Property and equipment	1,578	-	**1,578**

Bank carries out its business activities only in the territory of Ukraine.

Note 26. Financial risk management

Risk management is important in banking and is an essential element of transactions. The main risks, to which the Bank may be exposed in its operations, include credit risk, liquidity risk, market risk and operational and technological risk, legal, strategic and reputational risks.

The structure of risk management system at in PJSC "RWS BANK" consists of the standing committees: Credit Committee,; Small Credit Committee; Asset and Liability Management Committee; Tariff Committee and separate divisions of the Bank, Risk Management Department of the Bank.
The general risk management strategy is determined the Bank's Supervisory Board.

The Credit Committee activities are aimed at formation of credit portfolio with minimum credit risk, i.e. minimum level of overdue debt. For this purpose, the Bank:

- establishes credit limits;
- assesses the quality of assets and makes decision on creation of allowances for possible impairment losses;
- Ensures the compliance with risk ratios established by the National Bank of Ukraine (maximum credit risk ratio per one counterparty, maximum credit risk ratio on transactions with the Bank's related parties, large credit risks ratio).

To reduce the credit risk, the Committee regularly evaluates the creditworthiness of the Bank's counterparties; timely identifies bad assets; controls the calculation of allowance for impairment of assets.

The Small Credit Committee is authorized to take (agree) decisions on the possibility and conditions of credit transactions, as well as address other issues of credit relationships with a borrower within its powers, respective rights and limits established by the decision of the Credit Committee of the Bank.

The Asset and Liability Management Committee assesses and manages market risks both on individual transactions and in the areas of banking activities at assets and liabilities portfolios level as a whole. The Market Risks Management Department includes interest rate risk, currency risk and liquidity risk management.

The Committee considers the a monthly basis the cost of liabilities and profitability of assets and makes decisions on the interest margin policy. It considers the issues of matching of assets and liabilities maturities and provides to the relevant departments of the Bank the recommendations on elimination of differences between the terms of attracting liabilities and placing assets, which arise.

With regard to the liquidity risk and cash flow management, it calculates the perspective liquidity; assesses liquidity status and makes decisions on liquidity management within the delegated powers and internal regulations; takes preventive measures to minimize and ensure the management of liquidity risk arising in the current operations of the Bank and/or associated with a change in the market situation.

The Tariff Committee regularly reviews the ratio of cost of services and market competitiveness of the existing tariffs. In this regard, for implementation of the uniform tariff policy of the Bank the Committee:

- reviews the tariff systems, makes amendments and recommends them for approval;
- reviews and approves the tariffs for new products/services;
- Controls the implementation of the Bank's tariff policy by the structural divisions.

The daily risk management in the Bank is carried out by the Risk Management Department, which develops the policies on issues related to credit, market and operational risks, submits them for approval by the Bank's committees; identifies and assesses the risks (on specific transactions and at the level of portfolios as a whole); improves the methods of counteraction of external and internal fraud; arranges for the Bank's system of risk control and monitoring; assesses the operational and technological risks of all business processes, develops measures to prevent risks and measures to minimize the risks taken by the Bank. The representatives of Risk Management Department are members of the Credit Committee, the Small Credit Committee, the Asset and Liability Management Committee. At the meetings of the respective committees the representatives of the Risk Management Department have one voice without "veto" right.

The Risk Management Department performs an expert review of creditworthiness and other quantitative and qualitative characteristics of borrowers when issuing a loan, including against collateral, carries out monitoring, identification and daily assessment of risks association with these loans, develops and supports the Bank's borrowers assessment systems, identifies, monitors, assesses and minimises liquidity risk, interest rate risk, market and currency risks assumed by the

Bank in the current operations. In addition, this division is entrusted with the functions of analysis, management, monitoring and control of credit risk of interbank transactions and functions of monitoring and control of risks of violation of economic ratios, limits and special requirements of the National Bank of Ukraine.

The Risk Management Department is subordinated to the Chairman of the Bank's Board.

Credit risk

Credit risk is the risk of a financial loss because the borrowers or counterparties failed to fulfil their obligations to the Bank.

To manage the credit risk, the Bank has developed the rules and procedures, established the Credit Committee and the Small Credit Committee, which actively monitor the credit risk. The Bank controls the accepted credit risk by establishing limits on the amount of this risk. In order to manage the credit risk, the Bank carries out transactions secured by collateral with customers and counterparties having good financial standing.

The Bank's credit policy is reviewed and approved by the Bank's Supervisory Board.

As at 31 December 2016, the maximum amount of credit risk was equal to UAH 33,877 thousand (31 December 2015: UAH 60,092 thousand)

Market risk

Market risks arise from open position on interest rates and currency instruments, which are affected by general and specific market changes. Market risk is the risk that changes in market conditions, such as interest rates, securities quotation, foreign exchange rates and credit spreads (not relating to changes in the creditworthiness of the debtor/creditor), affect the Bank's income or value of its financial instruments.

In order to limit losses, the Bank manages the market risk through periodic assessment of potential losses, which may arise as a result of adverse changes in market conditions, and through establishing and maintaining the relevant limits.

As part of market risk, the Bank also considers the price risk related to impairment of collateral (mortgage), etc.

The overall responsibility for control of the market risk assigned to the Asset and Liability Management Committee, which manages the market risk by establishing reasonable restrictions (limits, ratios).

Currency risk

Currency risk arises when the actual or forecasted assets in a foreign currency are greater or less than the liabilities in that currency.

Currency risk management strategy includes the following elements: use of all possible means to avoid the risk resulting in significant losses, risk control and minimisation of amounts of probable losses, if there is no possibility avoid it completely, foreign exchange risk insurance if there is no possibility to avoid it.

The Bank establishes limits and continuously monitors the currency positions in accordance with regulations of the National Bank of Ukraine.

Table 26.1. Currency risk analysis (UAH'000)

		2016				**2015**			
Line	**Currency**	**Monetary assets**	**Monetary liabilities**	**Derivatives**	**Net position**	**Monetary assets**	**Monetary liabilities**	**Derivatives**	**Net position**
1	USD	306	(601)	-	**(295)**	134	-	-	**134**
2	EUR	30	-	-	**30**	20	-	-	**20**
3	GBP	60	-	-	**60**	-	-	-	**-**
4	Other	-	-	-	-	-	-	-	-
5	**Total**	**396**	**(601)**	**-**	**(205)**	**154**	**-**	**-**	**154**

Table 26.2. Change in income or loss and equity as a result of possible changes in the official rate of Hryvnia to foreign currencies established as at the reporting date, assuming that all other variables remain unchanged

The calculation is made for cash balances in currencies different from the functional currency.

(UAH'000)

Line	Item description	2016		2015	
		Effect on income/(loss)	**Effect on equity**	**Effect on income/(loss)**	**Effect on equity**
1	Strengthening of USD by 53%	(156)	(156)	71	71
2	Devaluation of USD by 13%	38	38	17	17
3	Strengthening of EUR by 53%	16	16	11	11
4	Devaluation of EUR by 15%	(5)	(5)	3	3
5	Strengthening of GBP by 53%	32	32	-	-
6	Devaluation of GBP by 15%	(9)	(9)	-	-

Interest rate risk

Interest rate risk arises as a result of possible change in the value of financial instruments or future cash flows of financial instruments due to changes in interest rates. 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. In order to manage interest rate risk, the Bank establishes limits (restrictions) on the interest spread (margin), monitors the interest yield on assets and interest rates on liabilities and adjusts prices for banking products.

Table 26.3. General interest rate analysis

For assets and liabilities with fixed interest rates the maturity is determined based on the period from the reporting date to the contractual maturity date, and for assets and liabilities with variable interest rate - based on the nearest term of revision of interest rates or maturities depending on what happens earlier.

(UAH'000)

Line	Item description	On demand and less than 1 month	1 to 6 months	6 to 12 months	Over 1 year	Total
	2016					
1	Total financial assets	88,792	1	12,396	-	**101,189**
2	Total financial liabilities	81,678	1,282	175	-	**83,135**
3	Net gap on interest rates at the end of 2016	13%	-15%	14%	-	**14%**
4	Total financial assets	139,817	-	-	-	**139,817**
5	Total financial liabilities	47,148	52	34	210,085	**257,319**
6	Net gap on interest rates at the end of 2015	0.3%	-	-	1%	**0.6%**

The Bank has no financial instruments with variable interest rates, the change of which will have an impact on the Bank's financial performance or equity.

Table 26.4. Monitoring of interest rates on financial instruments

(%)									
		2016				**2015**			
Line	**Item description**	**UAH**	**USD**	**EUR**	**Other**	**UAH**	**USD**	**EUR**	**Other**
	Assets								
1	Cash and cash equivalents	12.5	-	-	-	-	-	-	-
2	Due from other banks	-	-	-	-	0.22	-	-	-
3	Loans and advances to customers	19.2	-	-	-	15.5	-	-	-
	Liabilities								
4	Customer accounts:								
4.1	current accounts	-	-	-	-	-	-	-	-
4.2	term accounts	8,7	-	-	-	-	-	-	-
5	Other financial liabilities	-	-	-	-	1	-	-	-

Table 26.5. Analysis of geographical concentration of financial assets and liabilities for 2016

Line	Item description	Ukraine	OECD	Other countries	Total
	Assets				
1	Cash and cash equivalents	88,543	-	-	**88,543**
2	Due from other banks	-	-	-	-
3	Loans and advances to customers	12,560	-	-	**12,560**
4	Other financial assets	86	-	-	**86**
5	**Total financial assets**	**101,189**	-	-	**101,189**
	Liabilities		-	-	
6	Customer accounts	68,920	-	-	**68,920**
7	Other financial liabilities	14,215	-	-	**14,215**
8	**Total financial liabilities**	**83,135**	-	-	**83,135**
9	**Net balance sheet position on financial instruments**	**18,054**	-	-	**18,054**
10	Credit related commitments	51,387	-	-	**51,387**

Table 26.6. Analysis of geographical concentration of financial assets and liabilities for 2015

Line	Item description	Ukraine	OECD	Other countries	Total
	Assets				
1	Cash and cash equivalents	359	-	-	**359**
2	Due from other banks	91,090	-	-	**91,090**
3	Loans and advances to customers	277	-	-	**277**
4	Other financial assets	48,091	-	-	**48,091**
5	**Total financial assets**	**139,817**	-	-	**139,817**
	Liabilities		-	-	-
6	Customer accounts	32,781	-	-	**32,781**
7	Other financial liabilities	9,479	-	215,059	**224,538**
8	**Total financial liabilities**	**42,260**	-	**215,059**	**257,319**
9	**Net balance sheet position on financial instruments**	**97,557**	-	**(215,059)**	**(117,502)**
10	Credit related commitments	-	-	-	-

Assets, liabilities and credit related commitments were classified by country in which the counterparty was located. Cash on hand were classified according to the country of its physical location.

Concentration of other risks

Operational and technological risk is the risk of direct or indirect loss resulting from incorrectly organised business processes, ineffectiveness of internal control procedures, technical failures, unauthorized actions of personnel or external impact.

The basic method of operational risk management is to establish internal controls. The Bank regularly performs audit of operating procedures with operational risks assessment, develops internal guidelines for their minimisation. Operational risks are always assessed during the analysis of new products, internal regulations, processes and operational, payment and settlement procedures.

The Bank implements a system of clear delegation of authorities, segregation of incompatible duties, segregation of authorities of certain structural divisions and employees of the Bank in carrying out all banking transactions with limited access to the operating system.

The basic measures of operational risk management: Transactions monitoring at the level of divisions, limiting physical access of the personnel to data in soft and hard copies, ensuring the procedures for review and dual control, ensuring the compliance of the Bank's operations with internal procedures and regulations, as well as the requirements of law and regulatory authorities.

Reputational risk is the existing or potential risk to income and capital arising from negative perception of the image of a financial institution by clients, contractors, founders and supervising authorities. This affects the Bank's ability to establish new relationships with counterparties, provide new services or maintain relationships with existing customers.

The Bank has established the procedure for participation of governing bodies and heads of structural divisions in the reputational risk management.

Strategic risk is the existing or potential negative impact on the Bank resulting from the adoption of incorrect managerial, strategic decisions, poor implementation of such decisions or lack of response to changes in the market external factors. Strategic risk is associated with errors in strategic management, especially with the possibility of incorrect formulation of the Bank's objectives, incorrect resource provision of their achievement and incorrect approach to risk management in the banking business in general. In order to minimise strategic risk, the Bank uses the following basic methods:

- ► Formalisation in the Bank's internal documents, including the Bank's Charter, of the segregation of authorities of governing bodies in decision-making;
- ► Control of obligingness of fulfilment of decisions adopted by the highest body of the Bank by subordinated division and employees of the Bank;
- ► Unification of major transactions of the Bank;
- ► Establishment of internal procedure for approval of changes in internal documents and procedures relating to decision-making;
- ► Analysis of impact of the strategic risk factors (both in aggregate and in terms of their classification) on the Bank's operations as a whole;
- ► Monitoring of changes in the Ukrainian law and effective regulations to identify and prevent strategic risk on an ongoing basis;
- ► Monitoring of the banking services market in order to identify the likely new areas of the Bank's operations and set new strategic goals;
- ► Monitoring of resources, including financial, material and technical, and human resources for implementation of the Bank's strategic tasks;
- ► Material encouragement of the Bank's employees depending on their performance impact on the strategic risk level;
- ► Ensuring continuous development of the Bank's employees in order to identify and prevent the strategic risk;
- ► Ensuring continuous access of the maximum number of the Bank's employees to up-to-date information on law requirements, internal documents of the Bank.

Legal risk is the existing or potential risk to cash proceeds and capital arising due to non-repayment of loans issued, violation or failure to comply with laws, regulations, agreements, accepted practice and ethical standards, and due to possible ambiguous interpretation of the established laws and regulations.

For the purpose of effective management and prevention of legal risk, the Bank has developed a prompt system of communicating the management and employees about the changes in the Bank's internal documents (regulations, rules, procedures). Internal banking regulations and introduction of new banking products undergo mandatory preliminary legal expertise.

To minimize legal risks when carrying out similar banking transactions, the Bank has developed and applies to standard forms of agreements and other standardised documents. In order to avoid litigations on banking transactions, the Bank carries out the methodical and consulting work with clients. The level of legal awareness of employees and management is enhanced through systematic trainings and education.

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 period.

The Bank has access to various financing sources. Funds are obtained through the use of various instruments, including contributions of the participants to the share capital. Thus, the ways of financing are diversified, dependence on any one source of financing is reduced and, generally, the cost of borrowing is reduced. The Bank seeks to maintain a balance between continuity of financing and its diversity using liabilities with different periods of repayment.

To manage the liquidity risk, the Bank uses economic and administrative tools.

The Bank continually assesses the liquidity risk by identifying and monitoring changes in financing required to achieve the business objectives defined within the general strategy.

In addition, as part of the liquidity risk management strategy, the Bank holds a portfolio of liquid assets and observes the established by the National Bank of Ukraine gaps between attracted and placed funds in terms of maturity.

The Bank has assets and liabilities denominated in several foreign currencies and is exposed to impact of fluctuations in foreign currency on its financial position and cash flows.

Table 26.7. Maturity analysis of financial liabilities for 2016 (UAH'000)

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 to 5 years	Over 5 years	Total
1	Customer accounts	68,220	311	410	-	-	**68,941**
1.1	Due to individuals	2,552			-	-	**2,552**
1.2	Due to legal entities	65,668	311	410	-	-	**66,389**
2	Other financial liabilities	13,058	982	175	-	-	**14,215**
3	Financial guarantees	47,387	-	-	-	-	**47,387**
4	Other credit related commitments	4,000	-	-	-	-	**4,000**
5	**Total potential future payments under financial liabilities**	**132,665**	**1,293**	**585**	**-**	**-**	**134,543**

Table 26.8. Maturity analysis of financial liabilities for 2015 (UAH'000)

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 to 5 years	Over 5 years	Total
1	Customer accounts	32,781	-	-	-	-	**32,781**
1.1	Due to individuals	2,585	-	-	-	-	**2,585**
1.2	Due to legal entities	30,196	-	-	-	-	**30,196**
2	Other financial liabilities	14,367	52	34	210,085	-	**224,538**
3	**Total potential future payments under financial liabilities**	**47,148**	**52**	**34**	**210,085**	**-**	**257,319**

Table 26.9. Maturity analysis of financial assets and liabilities based on expected maturity for 2016 (UAH'000)

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 to 5 years	Over 5 years	Total
	Assets						
1	Cash and cash equivalents	87,273	-	-	-	-	**87,273**
2	Obligatory reserves with the NBU	1,270	-	-	-	-	**1,270**
3	Loans and advances to customers	163	1	12,396	-	-	**12,560**
4	Other financial assets	86	-	-	-	-	**86**
5	**Total financial assets**	**88,792**	**1**	**12,396**	**-**	**-**	**101,189**
	Liabilities						
6	Customer accounts	68,620	300		-	-	**68,920**
7	Other financial liabilities	13,058	982	175	-	-	**14,215**
8	**Total financial liabilities**	**81,678**	**1,282**	**175**	**-**	**-**	**83,135**
9	**Net liquidity gap as at 31 December**	**7,114**	**(1,281)**	**12,221**	**-**	**-**	**18,054**
10	**Aggregate liquidity gap as at 31 December**	**7,114**	**5,833**	**18,054**	**-**	**-**	**-**

Table 26.10. Maturity analysis of financial assets and liabilities based on expected maturity for 2015 (UAH'000)

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 to 5 years	Over 5 years	Total
	Assets						
1	Cash and cash equivalents	177	-	-	-	-	**177**
2	Obligatory reserves with the NBU	182	-	-	-	-	**182**
3	Due from other banks	91,090					**91,090**
4	Loans and advances to customers	277	-	-	-	-	**277**
5	Other financial assets	48,091	-	-	-	-	**48,091**
6	**Total financial assets**	**139,817**	**-**	**-**	**-**	**-**	**139,817**
	Liabilities						
7	Customer accounts	32,781	-	-	-	-	**32,781**
8	Other financial liabilities	14,367	52	34	210,085	-	**224,538**
9	**Total financial liabilities**	**47,148**	**52**	**34**	**210,085**	**-**	**257,319**
10	**Net liquidity gap as at 31 December**	**92,669**	**(52)**	**(34)**	**(210,085)**	**-**	**(117,502)**
11	**Aggregate liquidity gap as at 31 December**	**92,669**	**92,617**	**92,583**	**(117,502)**	**(117,502)**	**-**

Note 27. Capital management

The table below shows the structure of regulatory capital as at 31 December 2016 and 2015, which is calculated in accordance with the requirements of the National Bank of Ukraine and reporting data, on the basis of which the amount of the Bank's regulatory capital is controlled.

Table 27.1. Regulatory capital structure (UAH'000)

Line	Item description	2016	2015
1	Main capital (Tier 1 capital)	240,263	121,229
1.1	Actually paid-in registered share capital	300,039	121,523
1.2	Reserve funds	9,401	-
1.3	Intangible assets less impairment	(440)	(294)
1.4	Accounting loss of the current year	(68,737)	-
2	Additional paid-in capital (Tier 2 capital)	102	235,402
	Including additional paid-in capital included in calculation of regulatory capital	102	121,229
2.1	Allowances for standard amounts due from other banks, for standard debt on loans to customers and standard debt under transactions on off-balance accounts (including revaluation of property and equipment)	4	4
2.2	Retained earnings of prior years	98	-
2.3	Accounting income of the current year	-	235,401
3	**Total regulatory capital**	**240,365**	**242,458**

Note 28. Commitments and contingencies

Legal proceedings

As at 31 December 2016, there were no property and non-property claims against the Bank.

Contingent tax liabilities

As at the reporting date, PJSC "RWS BANK" has no contingent liabilities associated with the occurrence of tax liabilities.

Capital expenditure commitments

As at 31 December 2016, there is no information on the amount of contractual obligations related to the acquisition of property, equipment and intangible assets.

Operating lease liabilities

PJSC "RWS BANK" has no concluded non-cancellable operating lease agreements, as a result, it has no potential liabilities on non-cancellable lease payments.

Credit related commitments

The main purpose of these instruments is to provide cash funds to meet the financial needs of clients. The guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of the customers authorising third parties to draw drafts on the Bank up to a stipulated amount under the specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend loans represent undrawn amounts designated for lending in the form of loans, guarantees and letters of credit. As regards credit risk on credit related commitments, the Bank is exposed to potential losses in the total amount of undrawn commitments in the event of granting to clients of such undrawn amount in full. However, the possible amount of losses is less than the total amount of undrawn commitments, insofar as the fulfilment of most credit related commitments depends on the clients' compliance with certain credit standards.

The Bank monitors the maturity of credit related commitments because longer-term commitments generally have a greater level of credit risk than short-term commitments. Outstanding credit related commitments were as follows:

Table 28.1. Structure of credit related commitments (UAH'000)

Line	Item description	2016	2015
1	Guarantees issued	47,387	-
2	Undrawn credit lines	4,000	-
3	Provision for credit related commitments	-	-
4	**Total credit related commitments net of provision**	**51,387**	**-**

The total amount of credit related commitments under an agreement does not necessarily represent the amount of money, the payment of which will be required in the future, since many of these commitments may prove to be unrequested or terminated before the expiry of their validity.

Table 28.2. Credit related commitments by currency (UAH'000)

Line	Item description	2016	2015
1	USD	33,877	-
2	UAH	17,510	-
3	**Total**	**51,387**	**-**

As at the reporting date, PJSC "RWS BANK" has no pledged assets and assets is respect of which there are limitations related to their ownership, use and disposal.

Note 29. Fair value of assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial assets actively traded in an active market are quoted prices in an active market. Where the market for a financial instrument is not active or in the market there is no information on current prices or it is impossible to find similar objects of valuation, to determine the estimated fair value the Bank uses valuation techniques and assumptions in respect of each class of financial assets or financial liabilities.

If the market for a financial instrument is not active, the Bank determines fair value using the following techniques:

- ► valuation technique, which is based on the use of recent market transactions between knowledgeable, willing parties in an arm's length transaction;
- ► method of reference to the current fair value of other similar instruments (similar in terms of currency, term, type of interest rate, cash flow structure, credit risk, collateral and other characteristics);
- ► method of discounted cash flow analysis, etc.

Financial instruments for which fair value is measured or disclosed in the financial statements are categorized within the three-level fair value hierarchy based on the possibility of its observation as a whole:

- ► Level 1 - quotes are based on determined prices in active markets, which exist and are regularly available in the active market.
- ► Level 2 - quotes are based on inputs for which all significant inputs can be received directly or indirectly through observation. Usually, one or more observable determined prices for orderly transactions in markets, which are not considered active, are used.
- ► Level 3 - quotes are based on unobservable inputs significant for the overall fair value measurement.

Table 29.1. Analysis of financial instruments designated at amortised cost (UAH'000)

Line	Item description	2016		2015	
		Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
	Financial assets				
1	Cash and cash equivalents	88,543	88,543	359	359
1.1	Cash on hand	1,056	1,056	23	23
1.2	Cash balances with the National Bank of Ukraine (other than obligatory reserves)	1,270	1,270	182	182
1.3	Correspondent accounts, deposits and overnight loans with banks	158	158	154	154
1.4	NBU deposit certificates	86,059	86,059	-	-
2	Due from other banks:	-	-	91,090	91,090
2.1	Placements on correspondent account	-	-	91,090	91,090
3	Loans and advances to customers:	12,560	12,560	277	277
3.1	Corporate lending	12,560	12,560	277	277
4	Other financial assets:	86	86	48,091	48,091
5	**Total financial assets designated at amortised cost**	**101,189**	**101,189**	**139,817**	**139,817**
	Financial liabilities				
6	Customer accounts:	68,920	68,920	32,781	32,781
6.1	legal entities	66,368	66,368	30,196	30,196
6.2	individuals	2,552	2,552	2,585	2,585
7	Other financial liabilities:	14,215	14,215	224,538	224,538
7.1	Non-performing customer accounts	860	860	1,147	1,147
7.2	Other payables on transactions with the Bank's customers	8,698	8,698	217,650	217,650
7.3	Agent services	2,516	2,516	-	-
7.4	Commission for guarantees issued	964	964	-	-
7.5	Other	1,177	1,177	5,741	5,741
8	**Total financial liabilities designated at amortised cost**	**83,135**	**83,135**	**257,319**	**257,319**

Table 29.2. Analysis of financial instruments by fair value levels for 2016 (UAH'000)

Line	Item description	Fair value under various valuation models		Total fair value	Total carrying amount
		Market quotations (level I)	**Valuation models, which use data not confirmed by market data (level III)**		
	Financial assets				
1	Cash and cash equivalents	-	88,543	**88,543**	**88,543**
1.1	Cash on hand	-	1,056	**1,056**	**1,056**
1.2	Cash balances with the National Bank of Ukraine (other than obligatory reserves)	-	1,270	**1,270**	**1,270**
1.3	Correspondent accounts, deposits and overnight loans with banks	-	158	**158**	**158**
1.4	NBU deposit certificates		86,059	**86,059**	**86,059**
2	Due from other banks:	-	-	-	-
2.1	Placements on correspondent account	-	-	-	-
3	Loans and advances to customers:	-	12,560	**12,560**	**12,560**
3.1	Corporate lending	-	12,560	**12,560**	**12,560**
4	Other financial assets:	-	86	**86**	**86**
4.1	Accrued fee and commission income	-	86	**86**	**86**
5	**Total financial assets designated at amortised cost**		**101,189**	**101,189**	**101,189**
	Financial liabilities				
6	Customer accounts:	-	68,920	**68,920**	**68,920**
6.1	legal entities	-	66,368	**66,368**	**66,368**
6.2	individuals	-	2,552	**2,552**	**2,552**
7	Other financial liabilities:	-	14,215	**14,215**	**14,215**
7.1	Non-performing customer accounts	-	860	**860**	**860**
7.2	Other payables on transactions with the Bank's customers	-	8,698	**8,698**	**8,698**
7.3	Agent services	-	2,516	**2,516**	**2,516**
7.4	Commission for guarantees issued	-	964	**964**	**964**
7.5	Other	-	1,177	**1,177**	**1,177**
8	**Total financial liabilities designated at amortised cost**	-	**83,135**	**83,135**	**83,135**

Table 29.3. Analysis of financial instruments by fair value levels for 2015 (UAH'000)

Line	Item description	Fair value under various valuation models		Total fair value	Total carrying amount
		Market quotations (level I)	Valuation models, which use data not confirmed by market data (level III)		
	Financial assets				
1	Cash and cash equivalents	-	359	**359**	**359**
1.1	Cash on hand	-	23	**23**	**23**
1.2	Cash balances with the National Bank of Ukraine (other than obligatory reserves)	-	182	**182**	**182**
1.3	Correspondent accounts, deposits and overnight loans with banks	-	154	**154**	**154**
2	Due from other banks:	-	91,090	**91,090**	**91,090**
2.1	Placements on correspondent account	-	91,090	**91,090**	**91,090**
3	Loans and advances to customers:	-	277	**277**	**277**
3.1	Corporate lending	-	277	**277**	**277**
4	Other financial assets:	-	48,091	**48,091**	**48,091**
5	**Total financial assets designated at amortised cost**	-	**139,817**	**139,817**	**139,817**
	Financial liabilities				
6	Customer accounts:	-	32,781	**32,781**	**32,781**
6.1	legal entities	-	30,196	**30,196**	**30,196**
6.2	individuals	-	2,585	**2,585**	**2,585**
7	Other financial liabilities:	-	224,538	**224,538**	**224,538**
7.1	Non-performing customer accounts	-	1,147	**1,147**	**1,147**
7.2	Other payables on transactions with the Bank's customers	-	217,650	**217,650**	**217,650**
7.3	Other	-	5,741	**5,741**	**5,741**
8	**Total financial liabilities designated at amortised cost**	-	**257,319**	**257,319**	**257,319**

Note 30. Presentation of financial instruments by valuation categories

Table 30.1. Financial assets by valuation category for 2016 and 2015 (UAH'000)

Line	Item description	Loans and receivables	
		2016	2015
	Assets		
1	Due from other banks		91,090
2	Loans and advances to customers	12,560	277
3	NBU deposit certificates	86,059	
4	Other financial assets	86	48,091
5	**Total**	**98,705**	**139,458**

Note 31. Related party transactions

In accordance with *IAS 24 "Related Party Disclosures"*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Table 31.1. Income and expenses on related party transactions for the reporting period (UAH'000)

Line	Item description	Largest participants (shareholders of the Bank)	Management personnel
1	Fee and commission income	4	-
2	Administrative and other operating expenses	1,194	2,540

Table 31.2. Payments to key management personnel (UAH'000)

Line	Item description	2016		2015	
		Expenses	Accrued liability	Expenses	Accrued liability
1	Current employee benefits	1,652	53	165	60
2	Post-employment benefits	24	-	-	-

Note 32. Events after the reporting date

After the reporting date there were no events requiring adjustment of the Bank's annual financial statements.