

PJSC Commercial Bank PrivatBank – Cyprus Branch

Report and financial statements 31 December 2015

Contents

Board of Directors and Branch Management	Page
Report of the Board of Directors	1
Independent auditor's report	2 – 3
Statement of comprehensive income	4 – 6
Balance sheet	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10
Additional information to the financial statements	11 – 53
	54 – 55

PJSC Commercial Bank PrivatBank – Cyprus Branch

Board of Directors and Branch Management

Board of Directors of Commercial Bank PrivatBank

Oleksandr Dubilet – Chairman
Iurii Pikush
Volodymyr Yatsenko
Timur Novikov
Liubov Korotina
Volodymyr Zavorotny
Tetiana Gurieva
Liubov Chmona
Igor Terokhin
Oleksandr Vityaz
Stanislav Kryzhanovskyy
Oleg Gorokhovskiy
Liudmyla Shmalchenko
Dmytro Dubilet
Roman Negynskiy
Vadim Kovalyov (appointed 17 April 2015)
Yuriy Kandaurov (resigned 28 April 2015)

Branch Management

Vladislav Morgachev – General Manager

Branch Registered Office

Arch. Makariou III, 52A
CY-1075 Nicosia
Cyprus

PJSC Commercial Bank PrivatBank – Cyprus Branch

Report of the Board of Directors

1 The Board of Directors of PJSC Commercial Bank PrivatBank (the "Bank") presents its report together with the audited financial statements of PJSC Commercial Bank PrivatBank – Cyprus Branch (the "Branch") for the year ended 31 December 2015.

Principal activities

2 The principal activity of the Branch, which is unchanged from last year, is the provision of banking services on the basis of the licence granted by the Central Bank of Cyprus.

Review of developments, position and performance of the Branch

3 The profit of the Branch for the year ended 31 December 2015 was €594 thousand (2014: €579 thousand) and its total assets as at 31 December 2015 were €1.097.853 thousand (2014: €1.102.628 thousand). The financial position and performance of the Branch as presented in the financial statements is considered satisfactory.

Principal risks and uncertainties

4 The principal risks and uncertainties faced by the Branch are presented in Notes 1, 3 and 4 of the financial statements.

Future developments of the Branch

5 Significant changes and developments in the operations, financial position and performance of the Branch in the foreseeable future are disclosed in Notes 2 and 24.

Results

6 The Branch's results for the year are set out on page 7. The profit for the year is transferred to the Head Office account as disclosed in Note 18 of the financial statements.

Board of Directors

7 The members of the Board of Directors of PJSC Commercial Bank PrivatBank at 31 December 2015 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2015, except for Mr Yuriy Kandaurov who resigned on 28 April 2015 and Mr Vadim Kovalyov who was appointed as Director on 17 April 2015.

8 There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the balance sheet date

9 Events after the balance sheet date are disclosed in Note 24 of the financial statements.

PJSC Commercial Bank PrivatBank – Cyprus Branch

Report of the Board of Directors (continued)

Independent Auditors

10 The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed to the Annual General Meeting.

By Order of the Board

Volodymyr Yatsenko
Director

Nicosia
15 July 2016





Basis for qualified opinion

In respect of the related party transactions and disclosures of the Branch presented in Note 21 to the financial statements, the audit evidence we had available was limited because we have not been provided with the complete list of related parties as at 31 December 2015. We were unable to perform alternative procedures so as to obtain sufficient and appropriate audit evidence as to the completeness of the related party transactions and disclosures.

Qualified opinion

In our opinion, except for the effects of any adjustments that could have been determined to be necessary had we been able to satisfy ourselves as to the completeness of the related party transactions and disclosures, the financial statements give a true and fair view of the financial position of the Cyprus Branch of PJSC Commercial Bank PrivatBank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of matters

- (a) We draw attention to Note 1 to the financial statements which indicates that the operations of the Bank's Head office and those of other entities in the Ukraine, have been affected and may continue to be affected for the foreseeable future, by the continuing political and economic uncertainties in Ukraine. As further explained in Note 2, the Cyprus Branch is significantly reliant on the Head office for its liquidity and profitability and given the guarantees issued by the Head office in relation to the loan portfolio of the Branch, the Branch also relies on the Head office in relation to the recoverability of its loan portfolio. These conditions, along with other matters disclosed in Notes 1 and 2 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Cyprus Branch's ability to continue as a going concern. Our opinion is not further qualified in respect of this matter.
- (b) We draw attention to Note 2 to the financial statements which indicates that during 2015 the liquidity ratios of the Cyprus Branch have deteriorated and the Cyprus Branch has been non-compliant with the prudential liquidity ratios. Further, as at the year end and as of today, the Cyprus Branch is not in compliance with the applicable maximum limit as required by the instructions of Central Bank of Cyprus in relation to the amount due from the Head Office. Our opinion is not further qualified in respect of this matter.



Independent auditor's report

To the Members of PJSC Commercial Bank PrivatBank

Report on the financial statements

We have audited the accompanying financial statements of the Cyprus Branch (the "Branch") of PJSC Commercial Bank PrivatBank (the "Bank"), which comprise the balance sheet as at 31 December 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit, except that the scope of our work was limited by the matter discussed in the basis for qualified opinion paragraph.
- In our opinion, proper books of account have been kept by the Branch, so far as appears from our examination of these books, except in the case of related party transactions and disclosures as discussed in the basis for qualified opinion paragraph.
- The Branch's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required, except in the case of related party transactions and disclosures as discussed in the basis for qualified opinion paragraph.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

George C Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Nicosia, 15 July 2016

PJSC Commercial Bank PrivatBank – Cyprus Branch

Statement of comprehensive income for the year ended 31 December 2015

	Note	2015 €'000	2014 €'000
Interest and similar income	5	100.814	103.141
Interest and similar expenses	5	(83.969)	(94.803)
Net interest income		16.845	8.338
Loan impairment charges	6	(16.182)	(6.417)
		663	1.921
Fee and commission income	7	2.142	1.752
Fee and commission expense	7	(120)	(141)
Net fees and commission		2.022	1.611
Currency dealing profit		257	269
Net foreign exchange transaction gain		1.424	1.307
		4.366	5.108
General and administrative expenses	8	(3.772)	(4.298)
Profit before income tax		594	810
Income tax expense	10	-	(231)
Profit for the year		594	579
Other comprehensive income		-	-
Total comprehensive income for the year transferred to Head Office account	18	594	579

The notes on pages 10 to 53 are an integral part of these financial statements.

PJSC Commercial Bank PrivatBank – Cyprus Branch

Balance Sheet as at 31 December 2015

	Note	2015 €'000	2014 €'000
Assets			
Cash and balances with Central Bank	11	8.398	9.222
Loans and advances to banks	12	254.428	237.368
Loans and advances to customers	13	833.745	855.729
Other assets		398	202
Income tax refundable		86	-
Property, plant and equipment	14	798	107
Total assets		1.097.853	1.102.628
Equity and liabilities			
Reserves			
Share grant reserve	21	1.188	1.188
Liabilities			
Deposits from banks	15	410.041	191.079
Deposits from customers	16	673.138	897.322
Other liabilities	17	433	303
Current income tax liability		-	277
Head office account	18	13.053	12.459
		1.096.665	1.101.440
Total equity and liabilities		1.097.853	1.102.628

On 15 July 2016 the Board of Directors of PJSC Commercial Bank PrivatBank authorised these financial statements for issue.

Volodymyr Yatsenko, Director

Oleg Goroyhovskiy, Director

Iurii Pikush, Director

The notes on pages 10 to 53 are an integral part of these financial statements.

PJSC Commercial Bank PrivatBank – Cyprus Branch

Statement of changes in equity for the year ended 31 December 2015

	Note	Share grant reserve €'000	Total €'000
Balance at 1 January 2014/31 December 2014/ 31 December 2015	21&23	<u>1.188</u>	<u>1.188</u>

The notes on pages 10 to 53 are an integral part of these financial statements.

PJSC Commercial Bank PrivatBank – Cyprus Branch

Statement of cash flows for the year ended 31 December 2015

	Note	2015 €'000	2014 €'000
Cash flows from operating activities			
Profit before income tax		594	810
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	14	51	38
Loan impairment charges	6	16.182	6.417
		<u>16.827</u>	<u>7.265</u>
Changes in working capital:			
Mandatory reserve deposits with Central Bank		1.247	532
Loans and advances to customers		5.802	(15.327)
Other assets		(196)	(5)
Deposits from banks		218.962	(43.113)
Deposits from customers		(224.184)	(1.737)
Other liabilities		130	(214)
Cash generated from/(used in) operations		<u>18.588</u>	<u>(52.599)</u>
Income tax paid		(363)	(229)
Net cash generated from/(used in) operating activities		<u>18.225</u>	<u>(52.828)</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	14	(742)	(13)
Net cash used in investing activities		<u>(742)</u>	<u>(13)</u>
Net increase/(decrease) in cash and cash equivalents		<u>17.483</u>	<u>(52.841)</u>
Cash and cash equivalents at beginning of year		238.937	291.778
Cash and cash equivalents at end of year	19	<u>256.420</u>	<u>238.937</u>

The notes on pages 10 to 53 are an integral part of these financial statements.

PJSC Commercial Bank PrivatBank – Cyprus Branch

Notes to the financial statements

1 General information

Country of incorporation

PJSC Commercial Bank PrivatBank – Cyprus Branch (the “Branch”) is registered in Cyprus and operates under the licence from the Central Bank of Cyprus issued on 20 July 1999. Up to 27 December 2015 the registered office of the Branch was at 3 Kallipoleos Avenue, 3rd floor, CY-1055 Nicosia, Cyprus. From 28 December 2015 onwards, the new registered office of the Branch is at 52A, Arch. Makariou III, CY-1075 Nicosia, Cyprus. The address of the principal place of business of the Branch is at 52 A, Arch. Makariou III, CY-1075 Nicosia, Cyprus. PJSC Commercial Bank PrivatBank, which is the Branch’s ultimate controlling party, is incorporated in Ukraine.

Principal activities

The principal activity of the Branch, which is unchanged from prior year, is the provision of banking services on the basis of the licence from the Central Bank of Cyprus.

Operating environment

The Branch, through its operations has exposure to the economy and financial markets of Ukraine and to a lesser extent the Russian Federation and Cyprus.

Ukraine

Starting in late 2013 the political situation in Ukraine has experienced instability with numerous protests and continued political uncertainty that has led to a deterioration of the State’s finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies. The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The National Bank of Ukraine, among other measures, imposed certain restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market.

The political situation in 2014 has also been volatile, with changes in the Ukrainian Parliament and the Presidency. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. The Russian Federation, Mongolia, Syria, Kazakhstan are the only countries that recognised the referendum and the annexation. This event resulted in significant deterioration of relationships between Ukraine and the Russian Federation. Starting from March 2014, the Bank was unable to conduct its operations in the Crimea.

The political situation in Eastern Ukraine also deteriorated in 2014 resulting in armed conflict and military activity in some parts of Donetsk and Lugansk regions. The armed conflict in the region has put further pressure on relations between Ukraine and the Russian Federation. Escalating political tensions have had an adverse effect on Ukrainian financial markets, resulting in a hampering of ability of Ukrainian companies and banks to obtain funding from the international and capital and loan markets. This has contributed to further significant devaluation of Hryvnya against major foreign currencies.

PJSC Commercial Bank PrivatBank – Cyprus Branch

1 General information (continued)

Ukraine (continued)

As at the date of this report the official NBU exchange rate of Hryvnia against US dollar was UAH 24.85 per USD 1 compared to UAH 24.00 per USD 1 as at 31 December 2015. Borrowers of the Bank may be adversely affected by the deteriorated financial and economic environment, including devaluation of the Ukrainian Hryvnia in January 2014 – December 2015. As a certain part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies could have a significant impact on borrowers' ability to service the loans. Management tests loans for impairment with due consideration of the above risk factors.

During 2015, the economic situation in Ukraine continued to be negative. This economic downturn is primarily attributed to the rapid fall of the Ukrainian national currency, the Hryvnia, against the US dollar, which had an adverse impact on the financial sector. The Ukrainian economy is also impacted by trade disagreements with Russia, and the decline in the export prices for wheat and steel in the world.

In February 2015, the second Minsk Protocol was signed and since then vast military operations have not been observed; however, there are frequent reports of provocations, which makes it difficult to forecast the outcome of the political and economic crisis and its impact on Ukraine.

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further severe effects on the Ukrainian economy and the Bank's business.

The Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade.

These events may have a further significant impact on the Bank's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Bank's operations may differ from management's current expectations.

Cyprus

Following three years of economic recession, the Cyprus economy has recorded positive growth in the first half of 2015. As from April 2015, the restrictive measures and capital controls which were in place since March 2013 have been lifted. In recognition of the progress achieved on the fiscal front and the economic recovery, as well as the enactment of the foreclosure and insolvency framework, the international credit rating agencies have upgraded the credit ratings for the Cypriot sovereign, however the rating continues to be "non-investment grade". At the same time there are some major downside risks emanating from the high level of non-performing loans in the banking sector and the limited availability of credit.

PJSC Commercial Bank PrivatBank – Cyprus Branch

1 General information (continued)

Operating environment (continued)

Cyprus (continued)

This operating environment may have a significant impact on the Cyprus Branch's operations and financial position. Management is taking necessary measures to ensure sustainability of the Cyprus Branch's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

The Cyprus Branch's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Cyprus Branch. The Cyprus Branch's management believes that it is taking all the necessary measures to maintain the viability of the Cyprus Branch and the development of its business in the current business and economic environment.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2015 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The Branch's financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows and the notes.

The financial statements have been prepared under the historical cost convention.

The Branch classifies its expenses by the function of expense method.

The financial statements are presented in Euro, which is the Branch's functional and presentation currency. The figures shown in the financial statements are stated in Euro thousand.

The disclosures on risks from financial instruments are presented in the financial risk management note (Note 3).

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Note 19 shows in which item of the balance sheet cash and cash equivalents are included.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are also adjusted. Interest received or paid is classified as operating cash flows. The cash flows from investing and financing activities are determined by using the direct method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Branch's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Branch's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Going concern

The Branch's loan portfolio is approximately 99% guaranteed by the Head office and also the Branch is reliant on the continuing support of its Head Office to meet its liquidity requirements. In addition a significant proportion of the Branch's profitability is generated from business referred to it from its Head Office. Given the overall dependence of the Branch on the Head office and the current political and economic uncertainty that currently exists in Ukraine as detailed in note 1, a significant uncertainty exists which may cast significant doubt as to the Branch's ability to continue as a going concern.

During the year 2015 the Branch has had to fulfill the existing requirements of the Central Bank of Cyprus, in particular:

- 1) Comply with the relevant limits of the prudential liquidity ratios (ratio for time band up to 7 days: greater than -10%; ratio for time band from 8 days to 1 month: greater than -25%; liquid assets ratio: greater than 20%).
- 2) Maintain the amount due from Head Office on maximum limit of €50mln.

However, during 2015 the prudential liquidity ratios of the Branch have deteriorated and as at 31 December 2015 were as follows: up to 7 days: -26,94%; 8 days to 1 month: -28,81%; liquid assets ratio: 24,28% (this was in compliance with the Central Bank of Cyprus requirements).

The amount due from Head Office amounts to approximately €219 mln as at 31 December 2015 (Note 12) indicating non-compliance to the currently applicable maximum limit per the relevant Central Bank Directive (paragraph 6(e)).

In view of deterioration of the Branch's liquidity position and the risk that the Branch's ability to respond promptly to its obligations will be reduced the Central Bank of Cyprus instructed the Branch on 25 January 2016 to undertake the following measures with immediate effect:

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Going concern (continued)

1. Immediate enhancement of the Branch's liquidity position through the transfer of liquid funds from the Head Office of the Bank by adherence to more stringent prudential liquidity ratios.

The maximum allowable maturity mismatch ratios for the time band "sight to 7 days" is set at -7,5% instead of -10%; for the cumulative time band "sight to 1 month" is set at -20% instead of -25%; the minimum liquid assets ratio is set at 25% instead of 20%.

In the period from February 2016 to the beginning of April 2016 the Branch has taken corrective measures to improve its prudential liquidity ratios and since 8 April 2016 the Branch was in compliance with the limits of the relevant prudential liquidity ratios.

Further to the above, in order to ensure adequate diversification of the Cyprus Branch's liquid assets, the Central Bank of Cyprus instructed the Cyprus Branch that the funds transferred from the Head Office for compliance with the above requirements to be deposited in overnight deposit accounts with prime banks (minimum short term credit rating of A-1) and the maximum amount to be deposited with each bank should not exceed 25% of the total liquid assets of the Branch.

2. Immediate reduction of the amount due from the Head Office so as to be brought within the maximum limit of €50mln.

The Branch has taken actions to establish corresponding deposit accounts with third party financial institutions in order to reduce the balance due from the Head Office. Currently, the Treasury department of the Bank is under negotiations with certain financial institutions to arrange such transactions for the Cyprus Branch. As at 17 June 2016, the amount due from the Head Office was €390mln, which was in breach of the maximum level set by the Central Bank of Cyprus of €50mln.

3. Immediate transfer of all customer loans and advances classified as non-performing to the Head Office. The Branch's management has initiated a process for the transfer of non-performing loans from the Branch to the Head Office.

During the first months of 2016, an amount of €480.252 thousand from the total loans and advances to customers was settled through deposits placed in Head Office and pledged as security for these loans.

In making their assessment regarding the ability of the Group/Head office and of the Branch to continue as a going concern the Directors considered the following:

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Going concern (continued)

The Bank's subsidiary in Latvia, AS PrivatBank, was reviewed in December 2015 by the Financial and Capital Market Commission of Latvia (FCMC), which identified violations of the Law On the Prevention on Money Laundering and Terrorism Financing, Credit Institution Law, the Legislation on Establishment of the Internal Control Framework and the Regulations for Enhanced Customer Due Diligence. It has been revealed in the course of the review that several Latvian banks, including AS Privatbank, were made involved in a serious suspicious transactions by its Moldavian clients (so called "Moldovan case"). After the case with the banks in Moldova, FCMC carried out the review of all banks servicing non-residents in Latvia, including AS PrivatBank. As a result, in December 2015 the FCMC imposed a fine of EUR 2 million and requested dismissal of Management Board of AS PrivatBank. Sanctions applied to AS PrivatBank did not affect its daily operations; AS PrivatBank continue to meet its obligations to customers and render banking services in the normal course of business. AS PrivatBank paid the full amount of the fine and appointed new members and the Chairman of the Board. The Bank developed an action plan for control over efficiency in the implementation of the AML policy and internal control, which was agreed by the FCMC. The plan envisages a number of activities to be carried out by the end of 2016, including the review of the Bank's internal processes and procedures, strengthening of employee training program, revision of the customer base, and conducting of external audits in the AML area.

On 6 May 2016, AS PrivatBank has signed an administrative settlement agreement with FCMC, according to which AS PrivatBank revoked claims made against the previous FCMC decisions and in turn, FCMC closed the administrative process initiated against subsidiary and confirmed not to impose any further sanctions, provided that AS PrivatBank will execute the action plan on AML control improvement that it has agreed with FCMC. AS PrivatBank also is developing a new strategy that aims to be sustainable in a long-term perspective focusing on improvement of AML procedures. As at the date of these financial statements, AS PrivatBank is collaborating with the FCMC to take all measures necessary and ensure future compliance with the regulator's requirements and the industry best practices.

Due to significant further UAH devaluation in 2015 against major hard currencies (refer to Note 1), overall lack of trust to the banking system in Ukraine resulting in outflow on customers' accounts in 2015 and preference of keeping money in short-term accounts rather than in long-term deposits, continuous negotiation with the NBU regarding the restructuring of expensive refinancing loans, significant part of which was overdue based on contractual terms being in force at the year-end, and prolongation of loans and advance to borrowers to a later periods resulted in a short-term liquidity gap up to one month of UAH 27,414 million (€1.045 thousand) and accumulative liquidity gap of up to one year of UAH 11,190 million (€427 thousand). In accordance with the NBU regulation No.363 issued on 9 June 2015, Ukrainian banks were allowed to initiate the restructuring of refinancing loans received from the NBU, provided the bank's application for the restructuring will be supported by the detailed plan of the financial rehabilitation. In such case, the refinancing loan maturity term can be postponed to June 2020, with gradual repayments starting from the second year. In July 2015, the Bank applied to the NBU with developed Plan of Financial Rehabilitation, which included commitment to increase the share capital, gradual compliance with the regulatory norms of liquidity, regulatory capital and matching of assets and liabilities by maturity terms. The Bank is in the process of preparation and submission of documents required by the NBU for restructuring of the NBU refinancing loans. In a meantime, the Bank fully adheres schedule of principal and interest repayment of refinancing loans, as further disclosed below.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Going concern (continued)

During 2015 and in 2016 up to the date of these financial statements, the Bank was not in compliance with certain prudential ratios. On 24 February 2015, the NBU issued the regulation No.129 "On certain issues of the Banks' activities" which allowed non-compliance by all Ukrainian banks with certain ratios and requirements, including those breached by the Bank, provided the non-compliance was caused by losses incurred as a result of the negative impact of operating environment in Ukraine. Compliance with the NBU requirements and norms is one of other debt covenants, however no early repayment or other sanctions are envisaged by the terms of these debts in the case of the breach.

In 2015, the NBU identified a few instances of non-compliance with conditions of refinancing loans from the NBU. However, the NBU did not settle unilateral the amount of outstanding refinancing loan from its correspondent account and has not applied any measures as at 31 December 2015 and subsequently in 2016. There is uncertainty as to whether such measures will be taken by the NBU in the future.

As a result of further negotiations held by the Bank with the NBU about restructuring of refinancing loans, in February and March 2016 the NBU has approved new Restructuring Plan and its amendment, according to which the Bank was required to further increase the share capital, repossess collateral by 1 April 2016, gradually decrease a share of loans issued to related parties and insiders of the Bank, obtain additional collateral for significant part of loans by 1 September 2016, gradually repay overdue principal and interest on the NBU refinancing loans by August 2017 and provide additional collateral for the NBU's refinancing loans. This plan also contains a number of limitations on the Bank's operations.

Following the approval of the Restructuring Plan the Bank actively commenced taking appropriate measures aimed at fulfilling the Plan:

- a) as at the date of these financial statements, the Bank obtained a legal title for the required amount of collateral of UAH 31,845 million (€1.141 thousand) under the Plan and accounted for it in its consolidated balance sheet as repossessed collateral. However, due to long and complex legal procedure of collateral repossession in Ukraine and necessity of obtaining the NBU's permission for repossession of certain assets, which were already pledged in favour of the NBU for refinancing loans, the Bank was able to repossess the required part of collateral by early June rather than by 1 April 2016 as was stipulated by the Restructuring Plan. The NBU has not applied any regulatory measures for late repossession of collateral by the date of these financial statements;
- b) during January-June 2016 the Bank repaid on time all interest due on refinancing loans from the NBU and principal according to the agreed schedule in total amount of UAH 5,640 million (€215 thousand);
- c) one of the Bank's shareholders, Mr. I.V. Kolomoysky, provided his personal guarantee confirming the Bank's ability to follow the Restructuring Plan.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Going concern (continued)

Management has also prepared monthly forecasted balances and results for periods throughout 2016 and the first six months of 2017. Judgements with regard to further UAH devaluation, sustainability of customers' balances, level of inflation in Ukraine, reduced tensions in the East of Ukraine, financial ability of borrowers to repay their loans and respective derivative amounts as they fall due, ability to negotiate additional collateral for the loans issues to the Bank's borrowers, willingness of the NBU not to demand immediate repayment of refinancing loans were required for the preparation of the forecasted balances and results. Repayment of the refinancing loans according to the schedule approved by the Restructuring Plan is included in these forecasted balances and results. Further support and maintaining a constructive dialogue with the NBU, CBC and FCMC significantly contributes to the Bank's going concern assessment.

Management believes that given all the actions they are taking, as described above, the Group will be able within the next 12 months to follow the Restructuring Plan, comply with the regulatory requirements of the countries where the Group operates, sustain its customer base and manage its liquidity gap. As such, management considers application of going concern assumption for the preparation of the Group and Branch financial statements is appropriate.

Adoption of new and revised IFRSs

During the current year the Branch adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2015. This adoption did not have a material effect on the accounting policies of the Branch with the exception of the following:

- IFRIC 21 – Levies. The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The adoption did not have a significant effect on the Branch's financial statements.
- Annual Improvements to IFRSs 2013. The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The amendments did not have a significant effect on the Branch's financial statements.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRSs (continued)

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Branch, except the following set out below:

- IFRS 9 “Financial Instruments: Classification and Measurement”* (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
 - i. Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
 - ii. Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
 - iii. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
 - iv. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
 - v. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRSs (continued)

- vi. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Branch is currently assessing the impact of the new standard on its financial statements.

- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective from the commencement date of its first financial year starting on or after 1 February 2015). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Branch is currently assessing the impact of the amendments on its financial statements.
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016*). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Branch is currently assessing the impact of the amendments on its financial statements.
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018)*. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRSs (continued)

When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Branch is currently assessing the impact of the amendments on its financial statements.

- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016)*. The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Branch is currently assessing the impact of the amendments on its financial statements.
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016)*. The Standard was amended to clarify the concept of materiality and explain that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS. The Branch is currently assessing the impact of the amendments on its financial statements.
- IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)*. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Branch is currently assessing the impact of the amendments on its financial statements.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRSs (continued)

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017)*. The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Branch is currently assessing the impact of the amendments on its financial statements.
- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017)*. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Branch is currently assessing the impact of the amendments on its financial statements.

* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

Management is considering the implications of the above standards, the impact on the Branch and the timing of their adoption, subject to endorsement by the EU.

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Fee and commission income and expense

Fee and commission income and expense, unless included in the effective interest rate calculation, are recognised in profit or loss on an accrual basis when the service is provided. Money transfer fees, ledger fees and other similar fees are recognised over the period the service is provided. Commitment fees, together with related direct costs for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment.

Employee benefits

The Branch and the employees contribute to the Government Social Insurance Fund based on employees' salaries. The Branch's contributions are expensed as incurred and are included in staff costs. The Branch has no further payment obligations once the contributions have been paid. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Derivative financial instruments

Derivative financial statements, including foreign exchange contracts and forward rate agreements are carried at their fair value.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Branch does not apply hedge accounting.

The result on dealing with derivative financial instruments is included in profit or loss for the year within "Currency dealing profit".

Foreign currency translation

(a) Functional and presentation currency

Items included in the Branch's financial statements are measured using the currency of the primary economic environment in which the Branch operates ("the functional currency"). The financial statements are presented in Euro (€), which is the Branch's functional and presentation currency. The financial statements are presented in thousands of Euro (€'000).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Current and deferred income tax

The tax expense for the period comprises current income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the Branch operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Branch where there is an intention to settle the balances on a net basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value plus transaction costs through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized when cash is advanced to the borrower and are derecognized when the rights to receive cash flows from the financial assets have expired or where the Branch has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognized at fair value plus transaction costs and are subsequently carried at amortized cost using the effective interest method. Loans and receivables are reported in the balance sheet as loans and advances to banks or customers. Interest on loans is included in profit or loss and is reported as 'Interest and similar income'.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss for the year when incurred. The Branch assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Branch uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings; and
- Deterioration in the value of collateral.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (ii) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Branch first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists 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. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Branch may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics and the impairment loss is calculated on the basis of historical loss experience, for each industry pool of loans.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Impairment of financial assets carried at amortised cost (continued)

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. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures 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.

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 reversal of the previously recognised impairment loss is recognised in the profit or loss.

Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. For leases where the Branch is the lessee, the total payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss within general and administrative expenses on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee is given. Subsequent to initial recognition, the Branch's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management. Any increase in the liability relating to guarantees is recognised in profit or loss.

From the perspective of the holder, the financial guarantee contracts are outside IAS 39's scope. The holder's accounting treatment depends on whether the guarantee is purchased in the context of the origination of a debt instrument or is purchased to guarantee pre-existing debt instruments. In the first case the purchaser of the financial guarantee contract, who could be either the borrower or the lender, should amortise the cost of the guarantee using the effective interest rate method, unless the debt instrument is measured at fair value through profit and loss. In the second case the cost is recognised as a pre-payment asset and amortised over the shorter of the life of the guarantee and the expected life of the guaranteed debt instruments. The asset is tested for impairment under IAS36. Lenders classify the amortisation and impairment charges as a reduction of interest income whilst borrowers treat it as an additional finance cost. In the case of the Cyprus branch the cost of the relevant instruments is Nil.

Deposits from banks and deposits from customers

Deposits from banks and deposits from customers are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss using the effective interest method and is recorded as interest expense in profit or loss. Deposits from banks and deposits from customers are derecognized when they are extinguished, that is, when the obligation is legally discharged.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

Subsequent costs are included in the assets' carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. All other repairs and maintenance of property, plant and equipment are charged to profit or loss during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to their residual values, over their estimated useful lives. The annual depreciation rates are as follows:

	%
Furniture, fittings and equipment	10 – 25
Motor vehicles	10 – 20
Computer equipment	10 – 50
Leasehold improvements	rate is calculated based on the shorter of useful life and the term of underlying lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the profit or loss of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in general and administrative expenses in profit or loss.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise balances with original maturities of three months or less from the date of acquisition, including cash in hand and deposits held at call with banks.

Mandatory cash balances (Minimum reserve account) with the Central Bank

Mandatory cash balances with the Central Bank are carried at amortised cost and are not available to finance the Branch's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Head Office account

The Head Office account represents the balance due between the Head Office and the Cyprus Branch as a result of the cumulative profits/losses arising in the Cyprus Branch net of any distributions to the Head Office.

Trade payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Impairment of non-financial assets

Intangibles that have an indefinite useful life, including goodwill, are not subject to amortization and are tested annually for impairment or more frequently if events and changes in circumstances indicate that they might be impaired. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Share grant

The Bank operates a share-based compensation plan for the management of the PrivatBank Group, including the management of subsidiaries and branches. The fair value of the managers' services received in exchange for the share grant is recognised as an expense with a corresponding increase in share grant reserve. If no vesting conditions are introduced, shares vest immediately. This is an equity settled compensation plan.

3 Financial risk management

(a) Financial risk factors

The Branch's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Branch's risk management are to identify all key risks for the Branch, measure these risks and manage the risk positions. The Branch regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Branch's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Branch's financial performance. The Branch defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors. The risks arising from financial instruments to which the Branch is exposed are financial risks, which include credit risk, liquidity risk and market risk.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.1 Market risk

The Branch takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of interest rates and foreign exchange rates.

(i) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Branch's functional currency. The Branch takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The limits for each currency are determined and controlled by the Head Office and are based on general economic and political factors related to each currency. In the normal course of business certain currency mismatches arise which are within the limits set by Head Office. Compliance with the set limits is monitored by the Branch's management on a daily basis.

At year end, the Branch had balances in US Dollars, Euro and other currencies. Other currencies represent mainly amounts in British Pounds Sterling.

The Branch operates on a matched funding basis, and as illustrated in the following tables the currency profile of assets is matched by the currency profile of liabilities and therefore aims to operate with as minimal net sensitivity as possible with respect to currency risk. The Branch does not have any other policies for managing currency risk. Also, there are no regulatory requirements for currency exposure limits to which the Branch should abide by.

At 31 December 2015, the Branch had the following positions in different currencies:

	EURO €'000	USD €'000	Other currencies €'000	Non- monetary items €'000	Total €'000
Assets					
Cash and balances with Central Bank	7.896	501	1	-	8.398
Loans and advances to banks	19.877	234.226	325	-	254.428
Loans and advances to customers	4.783	828.962	-	-	833.745
Other assets	383	15	-	-	398
Income tax refundable	86	-	-	-	86
Property, plant and equipment	-	-	-	798	798
Total assets	33.025	1.063.704	326	798	1.097.853
Liabilities					
Deposits from banks	2.419	407.622	-	-	410.041
Deposits from customers	78.989	593.870	279	-	673.138
Other liabilities	400	23	-	10	433
Head office account	13.053	-	-	-	13.053
Total liabilities	94.861	1.001.515	279	10	1.096.665
Net balance sheet position	(61.836)	62.189	47		

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.1 Market risk (continued)

(i) Currency risk (continued)

At 31 December 2014, the Branch had the following positions in different currencies:

	EURO €'000	USD €'000	Other currencies €'000	Non- monetary items €'000	Total €'000
Assets					
Cash and balances with Central Bank	8.759	430	33	-	9.222
Loans and advances to banks	119.076	118.078	214	-	237.368
Loans and advances to customers	2.923	852.806	-	-	855.729
Other assets	187	14	1	-	202
Property, plant and equipment	-	-	-	107	107
Total assets	130.945	971.328	248	107	1.102.628
Liabilities					
Deposits from banks	3.136	187.943	-	-	191.079
Deposits from customers	128.278	768.860	184	-	897.322
Other liabilities	261	32	-	10	303
Current income tax liability	277	-	-	-	277
Head office account	12.459	-	-	-	12.459
Total liabilities	144.411	956.835	184	10	1.101.440
Net balance sheet position	(13.466)	14.493	64		

At 31 December 2015, if the Euro had weakened/strengthened by 10% (2014: 10%) against the US dollar with all other variables held constant, the net balance sheet position would have been €6.219 thousands (2014: €1.449 thousands) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated assets and liabilities.

At 31 December 2015, if the Euro had weakened/strengthened by 10% (2014: 10%) against the US dollar with all other variables held constant, pre-tax profit for the year would have been €6.909 thousands (2014: €1.609 thousands) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated assets and liabilities.

(ii) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Branch takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Branch's loans and advances to customers and deposits from customers which carry interest at fixed rates expose the Branch to fair value interest rate risk.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.1 Market risk (continued)

(ii) Interest rate risk (continued)

If interest rates had been 100 basis points higher or lower with all other variables held constant, there would not be a significant effect on the Branch's profit as the Branch's loans and advances to customers and deposits from customers carry interest at fixed rates. In addition, loans and advances to banks comprise correspondent bank accounts and overnight placements which do not carry any interest.

The table below summarises the Branch's exposure to interest rate risk. Included in the table are the Branch's assets and liabilities at carrying amounts, categorised by the earlier of contractual interest rate repricing or maturity dates.

At 31 December 2015:

	Within 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	Over 1 year €'000	Non-interest bearing €'000	Total €'000
Assets						
Cash and balances with Central Bank	6.407	-	-	-	1.991	8.398
Loans and advances to banks	254.428	-	-	-	-	254.428
Loans and advances to customers	101.695	59.891	331.276	340.883	-	833.745
Other assets	-	-	-	-	398	398
Income tax refundable	-	-	-	-	86	86
Property, plant and equipment	-	-	-	-	798	798
Total assets	362.530	59.891	331.276	340.883	3.273	1.097.853
Liabilities						
Deposits from banks	210.150	2.503	196.701	687	-	410.041
Deposits from customers	124.783	35.761	157.101	246.231	109.262	673.138
Other liabilities	-	-	-	-	433	433
Head office account	-	-	-	-	13.053	13.053
Total liabilities	334.933	38.264	353.802	246.918	122.748	1.096.665
Net interest rate sensitivity gap	27.597	21.627	(22.526)	93.965		

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.1 Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2014:

	Within 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	Over 1 year €'000	Non-interest bearing €'000	Total €'000
Assets						
Cash and balances with Central Bank	7.655	-	-	-	1.567	9.222
Loans and advances to banks	-	-	-	-	237.368	237.368
Loans and advances to customers	331.962	61.854	381.753	80.160	-	855.729
Other assets	-	-	-	-	202	202
Property, plant and equipment	-	-	-	-	107	107
Total assets	339.617	61.854	381.753	80.160	239.244	1.102.628
Liabilities						
Deposits from banks	1.115	262	189.140	562	-	191.079
Deposits from customers	251.014	25.866	195.551	327.466	97.425	897.322
Other liabilities	-	-	-	-	303	303
Current income tax liability	-	-	-	-	277	277
Head office account	-	-	-	-	12.459	12.459
Total liabilities	252.129	26.128	384.691	328.028	110.464	1.101.440
Net interest rate sensitivity gap	87.488	35.726	(2.938)	(247.868)		

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.2 Liquidity risk

Liquidity risk is the risk that the Branch is unable to meet its obligations when they fall due as a result of deposits from customers being withdrawn, cash requirements from contractual commitments, or other cash outflows. The Branch is exposed to daily risks on its available cash resources. The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Branch. An unmatched position potentially enhances profitability but also increases the risk of losses. The maturities of assets and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity position of the Branch.

The tables below analyze the financial liabilities of the Branch into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2015:

	Up to 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	Over 1 year €'000	Total €'000
Financial liabilities					
Deposits from banks	210.275	4.528	198.497	835	414.135
Deposits from customers	239.044	44.415	191.499	266.041	740.999
Other liabilities	433	-	-	-	433
Head Office account	13.053	-	-	-	13.053
	<u>462.805</u>	<u>48.943</u>	<u>389.996</u>	<u>266.876</u>	<u>1.168.620</u>
	Up to 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	Over 1 year €'000	Total €'000
Credit related commitments (off-balance sheet items)					
Unutilised credit lines	8.206	-	-	-	8.206
Export letters of credit	2.329	-	-	-	2.329
Guarantees issued	332	-	-	-	332
Less: Cash covered credit related commitments	(2.329)	-	-	-	(2.329)
	<u>8.538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8.539</u>

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.2 Liquidity risk (continued)

At 31 December 2014:

	Up to 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	Over 1 year €'000	Total €'000
Financial liabilities					
Deposits from banks	1.151	780	189.695	747	192.373
Deposits from customers	353.513	34.420	231.169	382.542	1.001.644
Other liabilities	303	-	-	-	303
Head Office account	12.459	-	-	-	12.459
	<u>367.426</u>	<u>35.200</u>	<u>420.864</u>	<u>383.289</u>	<u>1.206.779</u>
	Up to 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	Over 1 year €'000	Total €'000
Credit related commitments (off-balance sheet items)					
Unutilised credit lines	11.196	-	-	-	11.196
Export letters of credit	3.078	-	-	-	3.078
Guarantees issued	38	-	-	-	38
Less: Cash covered credit related commitments	(3.078)	-	-	-	(3.078)
	<u>11.234</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11.234</u>

The Branch manages its liquidity risk through having deposits with Head Office which mature in line with the Branch's financial liabilities and by having available credit facilities from its Head Office.

3.3 Credit risk

The Branch takes on exposure to credit risk which arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Branch reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations, (ii) current exposure to the counterparty and its likely future development, from which the Branch derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations ('the loss given default').

The Branch employs a range of policies and practices to mitigate credit risk. There are limits to the level of lending that the Branch's Management can authorize. Facilities higher than these limits are authorized and monitored by the Head Office. Facilities within Management's discretion are monitored by the Branch. Potentially problematic facilities are watch listed and if not regularized are classified and monitored. In addition the Branch takes security for funds advanced. The Branch implements guidelines on the acceptability of specific classes of collateral. Also during the years 2015 and 2014 the Head Office has guaranteed a significant proportion of the loans and advances to customers provided by the Branch. The total principal amount of the loan guarantees as at 31 December 2015 amounted to €794.327 thousand (2014: €652.517 thousand) and of the accrued interest amounted to €30.267 thousand (2014: €44.381 thousand) (Note 21).

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.3 Credit risk (continued)

The Head Office, PJSC PrivatBank Commercial Bank, has long term rating of Ca (2014: Ca) and financial strength rating of E (2014: E) by Moody's.

The Branch's policy requires the review of individual advances that are above materiality thresholds on a continuous basis. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) guarantees provided by the Head Office and the anticipated receipts for that individual account.

The following table presents a worse case scenario of credit risk exposure to the Branch as at the balance sheet date, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet financial assets, the exposures set out below are based on the net carrying amounts as reported in the balance sheet.

	Maximum exposure	
	2015	2014
	€'000	€'000
<i>Credit risk exposures relating to on-balance sheet assets:</i>		
Balances with Central Bank (Note 11)	6.407	7.655
Loans and advances to banks (Note 12)	254.428	237.368
Loans and advances to customers (a) (Note 13)	833.745	855.729
Other assets	398	202
<i>Credit risk exposures relating to off-balance sheet items:</i>		
Unutilised credit lines (Note 22)	8.206	11.196
Guarantees issued (Note 22)	332	38
Export letters of credit (Note 22)	2.326	3.078
	1.105.842	1.115.266

- (a) As further disclosed in Note 21 to the financial statements, during the years 2015 and 2014 the Head Office has guaranteed a significant proportion of loans and advances to customers provided by the Branch. The total principal amount of the loan guarantees amounted to €794.327 thousand (2014: €652.517 thousand) as at 31 December 2015 and the accrued interest amounted to €30.267 thousand (2014: €44.381 thousand).

As shown above, 75% of the total maximum exposure is derived from on-balance sheet advances to customers (2014: 77%), whereas 20% of the total maximum exposure is derived from placements with the Head Office (2014: 3%). PJSC PrivatBank Commercial Bank has long term rating of Ca (2014: Ca) and financial strength rating of E (2014: E) by Moody's.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.3 Credit risk (continued)

Placements with banks other than with the Head Office and the Central Bank of Cyprus are analysed as follows:

	2015 €'000	2014 €'000
Large OECD banks	35.438	205.214
Non-OECD banks	64	82
Total (Note 12)	<u>35.502</u>	<u>205.296</u>

The Branch's loans and advances are summarized as follows:

	31 December 2015		31 December 2014	
	Loans and advances to customers €'000	Loans and advances to banks including Central Banks €'000	Loans and advances to customers €'000	Loans and advances to banks including Central Banks €'000
Neither past due nor impaired	379.636	260.835	616.942	245.023
Past due but not impaired	16	-	91	-
Individually impaired (a)	501.010	-	266.382	-
Gross	<u>880.662</u>	<u>260.835</u>	<u>883.415</u>	<u>245.023</u>
Less: Collective allowance for impairment (Note 13)	(1.273)	-	(3.219)	-
Specific allowance for impairment (Note 13)	(45.644)	-	(24.467)	-
	<u>(46.917)</u>	<u>-</u>	<u>(27.686)</u>	<u>-</u>
Net	<u>833.745</u>	<u>260.835</u>	<u>855.729</u>	<u>245.023</u>

(a) As at 31 December 2015 loan balances amounting to €448.627 thousand (2014: €241.482 thousand) from the above individually impaired loans of €501.010 thousand (2014: €266.382 thousand) were guaranteed by Head Office (Note 21).

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.3 Credit risk (continued)

Breakdown of loans and advances to customers by type of collateral taken as of 31 December 2015 is as follows:

	Loans and advances to customers €'000	Loans and advances to banks including Central Banks €'000
Unsecured exposures	86.542	260.835
Loans collateralised by:		
- cash deposits	15.719	-
- listed equity securities	307.172	-
- other real estate	44.033	-
- equipment	48.699	-
- other assets	378.497	-
Total loans and advances to customers (before impairment)	<u>880.662</u>	<u>260.835</u>

Breakdown of loans and advances to customers by type of collateral taken as of 31 December 2014 is as follows:

	Loans and advances to customers €'000	Loans and advances to banks including Central Banks €'000
Unsecured exposures	99.800	245.023
Loans collateralised by:		
- cash deposits	69.744	-
- listed equity securities	302.564	-
- other real estate	36.637	-
- equipment	10.009	-
- other assets	364.661	-
Total loans and advances to customers (before impairment)	<u>883.415</u>	<u>245.023</u>

Other assets held as collateral mainly include contracts for the acquisition and sale of gas, oil and other commodities as well as corporate guarantees.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.3 Credit risk (continued)

The table below indicates the financial effect of collateral on the net loans and advances to customers:

2015				2014			
Over-collateralised loans		Under-collateralised loans		Over-collateralised loans		Under-collateralised loans	
Loans and advances to customers (net of impairment)	Fair value of collateral	Loans and advances to customers (net of impairment)	Fair value of collateral	Loans and advances to customers (net of impairment)	Fair value of collateral	Loans and advances to customers (net of impairment)	Fair value of collateral
€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
410.465	621.814	423.280	266.139	143.780	170.248	711.949	265.860

Analysis by credit quality of neither past due nor impaired loans outstanding at 31 December 2015 is as follows:

(a) Loans and advances neither past due nor impaired

	2015 €'000	2014 €'000
Loans and advances to customers – neither past due nor impaired		
<i>Neither past due nor impaired</i>		
- Large borrowers with credit history with the Group over two years	237.267	474.693
- Large new borrowers with credit history with the Group less than two years	136.029	136.597
- Loans to medium size borrowers	5.663	5.269
- Loans to small entities	677	383
Total neither past due nor impaired	379.636	616.942

Analysis by credit quality of neither past due nor impaired loans and advances to banks:

	2015 €'000	2014 €'000
Loans and advances to banks – neither past due nor impaired		
<i>Correspondent accounts and deposits with Central Bank of Cyprus:</i>		
- B1 rated	6.407	-
- B3 rated	-	7.655
<i>Other banks:</i>		
- A1 rated	18.002	-
- A3 rated	3.221	122.544
- Baa1 rated	14.216	82.670
- B2 rated	-	2
- B3 rated	1	-
- Caa3 rated	63	81
- Ca rated	218.926	32.071
Loans and advances to banks - neither past due nor impaired	260.836	245.023

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.3 Credit risk (continued)

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal classification system adopted by the Branch as detailed in the relevant tables above which is mainly based on Moody's ratings. The loans and advances that were neither past due nor impaired are performing in accordance with their contractual terms.

(b) *Loans and advances to customers that are past due but not impaired*

The ageing analysis of loans that are past due but not impaired is as follows:

	2015 €'000	2014 €'000
<i>Past due but not impaired:</i>		
- Less than 30 days overdue	2	87
- 30 to 90 days overdue	14	4
Total past due but not impaired	16	91

The fair value of collateral in respect of loans that are past due but not impaired at 31 December 2015 and 2014 was as follows:

	2015 €'000	2014 €'000
<i>Fair value of collateral:</i>		
- Cash deposits	42	-
Total fair value of collateral – loans past due but not impaired	42	-

(c) *Loans and advances to customers that are individually impaired*

The fair value of the collateral in respect of loans and advances to customers that are individually impaired is as follows:

	2015 €'000	2014 €'000
<i>Fair value at collateral:</i>		
- Cash deposits	22.470	64.423
- Real estate	27.915	31.678
- Equipment	4.075	10.049
- Other assets	70.945	-
- Listed equity securities	317.898	-
Total fair value of collateral – loans that are individually impaired	443.303	166.889

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.3 Credit risk (continued)

The economic sectors of the customers that their loans were individually impaired are as follows:

	2015 €'000	2014 €'000
Individuals	50	48
Commerce and finance	160.997	184.059
Agriculture, forestry and food industry	43.496	77.865
Metallurgy and mining	44.933	4.215
Securities trading	241.760	-
Oil trading	7.882	-
Other	1.892	195
	<u>501.010</u>	<u>266.382</u>

Concentrations of credit risk

As at 31 December 2015 the Branch's 10 biggest customers by value of advances accounted for 36% (2014: 42%) of the loans and advances to customers.

Industry sectors

The economic sector risk concentrations within the customer loan portfolio are as follows:

	2015		2014	
	€'000	%	€'000	%
Individuals	75	0,01	66	0,01
Oil trading	68.126	7,74	55.634	6,30
Commerce and finance	245.938	27,93	274.010	31,02
Agriculture, forestry and food industry	43.496	4,94	77.865	8,81
Metallurgy and mining	209.038	23,74	171.453	19,41
Securities trading	311.626	35,39	302.564	34,25
Other	2.363	0,25	1.823	0,20
Gross carrying amount (Note 13)	<u>880.662</u>	<u>100,00</u>	<u>883.415</u>	<u>100,00</u>

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(a) Financial risk factors (continued)

3.3 Credit risk (continued)

Geographical sectors

The following is a geographical analysis of the Branch's assets and liabilities as at 31 December 2015:

	OECD €'000	Non-OECD €'000	Total €'000
Assets			
Cash and balances with Central Bank	-	8.398	8.398
Loans and advances to banks	35.438	218.990	254.428
Loans and advances to customers	54.281	779.464	833.745
Other assets	7	391	398
Income tax refundable	-	86	86
Property, plant and equipment	-	798	798
Total assets	89.726	1.008.127	1.097.853
Liabilities			
Deposits from banks	-	410.041	410.041
Deposits from customers	405.198	267.940	673.138
Other liabilities	4	429	433
Head office account	-	13.053	13.053
Total liabilities	405.202	691.463	1.096.665
Net balance sheet position	(315.476)	316.664	

The following is a geographical analysis of the Branch's assets and liabilities as at 31 December 2014:

	OECD €'000	Non-OECD €'000	Total €'000
Assets			
Cash and balances with Central Bank	-	9.222	9.222
Loans and advances to banks	205.214	32.154	237.368
Loans and advances to customers	82.545	773.184	855.729
Other assets	7	195	202
Property, plant and equipment	-	107	107
Total assets	287.766	814.862	1.102.628
Liabilities			
Deposits from banks	-	191.079	191.079
Deposits from customers	454.293	443.029	897.322
Other liabilities	7	296	303
Current income tax liability	-	277	277
Head office account	-	12.459	12.459
Total liabilities	454.300	647.140	1.101.440
Net balance sheet position	(166.534)	167.722	

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(b) Fair value estimation

The nominal value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Branch for similar financial instruments.

The table below summarises the carrying amounts and fair value of those financial assets and financial liabilities which are not presented on the Branch's balance sheet at fair value:

	2015		2014	
	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000
Loans and advances to customers	833.745	823.971	855.729	860.327
Deposits from customers	673.138	698.152	897.322	930.601
Deposits from banks	410.041	407.781	191.079	188.090

The fair value of cash and balances with Central Bank, loans and advances to banks, other assets and liabilities and of the Head Office account approximates their carrying amount, as they mature within one year and/or carry interest at variable rates.

Assets and liabilities not carried at fair value:

The table below analyses the fair value for disclosure purposes by fair value hierarchy for financial instruments not carried at fair value. The different levels of the fair value hierarchy have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the fair values of financial instruments not measured at fair value, analysed by the level of the IFRS 13 fair value hierarchy as indicated above:

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

(b) Fair value estimation (continued)

	At 31 December 2015			Total Fair Value-for disclosure purposes €000	Carrying amount €'000
	Level 1 €'000	Level 2 €'000	Level 3 €000		
Financial assets measured at amortised cost					
Cash and balances with Central Bank	-	-	8.398	8.398	8.398
Loans and advances to banks	-	-	254.428	254.428	254.428
Loans and advances to customers	-	-	823.971	823.971	833.745
Other assets	-	-	398	398	398
Financial liabilities measured at amortised cost					
Deposits from banks	-	-	407.781	407.781	410.041
Deposits from customers	-	-	698.152	698.152	673.138
Other liabilities	-	-	433	433	433
Head office account	-	-	12.840	12.840	12.840

	At 31 December 2014			Total Fair Value-for disclosure purposes €000	Carrying amount €'000
	Level 1 €'000	Level 2 €'000	Level 3 €000		
Financial assets measured at amortised cost					
Cash and balances with Central Bank	-	-	9.222	9.222	9.222
Loans and advances to banks	-	-	237.368	237.368	237.368
Loans and advances to customers	-	-	860.327	860.327	855.729
Other assets	-	-	202	202	202
Financial liabilities measured at amortised cost					
Deposits from banks	-	-	188.090	188.090	191.079
Deposits from customers	-	-	930.601	930.601	897.322
Other liabilities	-	-	303	303	303
Head office account	-	-	12.459	12.459	12.459

(c) Off balance sheet instruments

In common with other banks, the Branch conducts business involving guarantees, documentary letters of credit and acceptances. Guarantees are generally issued by the Branch to support the performance or credit standing of its customers. Documentary letters of credit relate to trade finance services offered to customers which commit the Branch to make payments to third parties on production of documents which are usually reimbursed by the customers immediately. Acceptances are undertakings to pay a bill drawn on a customer and reimbursement by the customer is usually immediate.

(d) Capital management

As the entity is a branch it does not have its own capital and hence does not monitor, measure or manage capital. This is performed at Head Office level.

PJSC Commercial Bank PrivatBank – Cyprus Branch

4 Critical accounting estimates and judgements

The Branch's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of financial statements. The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Branch's results and financial situation due to their materiality.

Impairment losses on loans and advances to customers

The Branch reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Branch makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decreases in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group on national or local economic conditions that correlate with defaults on assets in the Branch. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is estimated to be €55 thousand (2014: €62 thousand) higher/lower.

As further explained in Note 2 to the financial statements the Branch's loan portfolio is approximately 99% guaranteed by the Head office. Given the overall dependence of the Branch on the Head office and the current political and economic uncertainty that currently exists in Ukraine as detailed in Note 1, management has assessed the ability of the Head office to continue as a Going concern and meet the relevant guarantees provided to the Branch as further detailed in Note 2.

Income taxes

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Branch recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Where the actual final outcome (on the judgement areas) to differ by +/-10% from management's estimates, the Branch would need to increase/decrease the income tax liability by €206 thousand (2014: €146 thousand).

PJSC Commercial Bank PrivatBank – Cyprus Branch

4 Critical accounting estimates and judgements (continued)

Defining of related party and initial recognition of related party transactions

In the normal course of business the Branch enters into transactions with their related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Judgement is also applied to determine whether the counterparty is a related party or not including transactions with those entities where the major shareholders of the Bank individually or together directly or through intermediary beneficiaries can exercise significant influence or control. Refer to Note 21 for more details on related party transactions and balances.

5 Interest income and expense

	2015 €'000	2014 €'000
Interest and similar income:		
Placements with:		
PJSC Commercial Bank PrivatBank – parent entity	9.483	1.345
Other PJSC PrivatBank Group banks – parties under common control with the Branch	-	1
Other banks	4	15
	<u>9.487</u>	<u>1.361</u>
Loans and advances to customers – entities under common control with the Branch	4	16
Loans and advances to customers – other customers	91.323	101.764
	<u>91.327</u>	<u>101.780</u>
Total interest and similar income	<u>100.814</u>	<u>103.141</u>
	2015 €'000	2014 €'000
Interest and similar expenses:		
Placements from PJSC Commercial Bank PrivatBank – parent entity	(8.896)	(2.330)
Deposits from other PJSC PrivatBank Group banks – parties under common control with the Branch	(493)	(259)
	<u>(9.389)</u>	<u>(2.589)</u>
Deposits from customers – entities under common control with the Branch	(4.661)	(12.561)
Deposits from customers – owners and family members	(6.605)	(4.662)
Deposits from other customers	(63.314)	(74.991)
	<u>(74.580)</u>	<u>(92.214)</u>
Total interest and similar expenses	<u>(83.969)</u>	<u>(94.803)</u>
Net interest income	<u>16.845</u>	<u>8.338</u>

PJSC Commercial Bank PrivatBank – Cyprus Branch

6 Loan impairment charges

	2015 €'000	2014 €'000
Impairment charge for credit losses arising from:		
Loans and advances to customers (Note 13)	<u>16.182</u>	<u>6.417</u>

7 Fee and commission income and expense

	2015 €'000	2014 €'000
Fee and commission income:		
Cash and settlement services	2.091	1.669
Letters of credit and guarantees	25	33
Other fee and commission income	26	50
	<u>2.142</u>	<u>1.752</u>
Fee and commission expense:		
Cash and settlement transactions	<u>120</u>	<u>141</u>

8 General and administrative expenses

	2015 €'000	2014 €'000
Staff costs (Note 9)	1.418	1.435
Depreciation of property, plant and equipment (Note 14)	51	38
Operating lease rentals	281	283
Professional fees	111	125
Legal fees	64	17
Statutory auditor – audit fees	87	80
Statutory auditor – tax consultancy services	39	91
Mail and telecommunications	99	109
Maintenance costs	36	215
Entertainment expenses	6	2
Advertising and marketing expenses	133	149
Other expenses	108	411
Bank levy on customer deposits (1)	1.339	1.343
	<u>3.772</u>	<u>4.298</u>

(1) Special levy on total deposits is imposed by legislation to all Banks and Credit Institutions operating in Cyprus.

For 2014 and until September 2015 the levy on deposits was 0,15%, calculated on the previous year-end deposits. From the last quarter of year 2015 it is calculated on the previous quarter-end deposits. The levy is payable in quarterly instalments. The government levy on customer deposits for the year ended 31 December 2015 amounted to €1.339 thousand (2014: €1.343 thousand).

9 Staff costs

	2015 €'000	2014 €'000
Wages and salaries	1.272	1.285
Social insurance and other contributions	146	150
	<u>1.418</u>	<u>1.435</u>

PJSC Commercial Bank PrivatBank – Cyprus Branch

10 Income tax expense

	2015 €'000	2014 €'000
Current tax:		
Corporation tax	-	231
	<u>-</u>	<u>231</u>

The tax on the Branch's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2015 €'000	2014 €'000
Profit before income tax	594	810
Tax calculated at the applicable corporation tax rate of 12,5%	74	101
Tax effect of expenses not deductible for tax purposes	323	635
Tax effect of allowances and income not subject to tax	(622)	(505)
Tax effect of tax losses carried forward	225	-
	<u>-</u>	<u>231</u>
Income tax charge	-	231

The Branch is subject to income tax on taxable profits at the rate of 12,5%.

As from tax year 2012 brought forward losses of only five years may be utilised.

Up to 31 December 2008, under certain conditions interest may be subject to special contribution for defence at the rate of 10%. In such cases 50% of the same interest will be exempt from income tax thus having an effective tax rate burden of approximately 15%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013.

In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2014. In certain cases dividends received from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

During 2015, the Branch incurred tax losses of €1.799.909, which are carried forward and can be utilised against future taxable profits for a period of five years up to 31 December 2020.

11 Cash and balances with Central Bank

	2015 €'000	2014 €'000
Cash in hand (Note 19)	1.991	1.567
Minimum reserve account with Central Bank	6.406	7.653
Cash balances with Central Bank (Note 19)	1	2
	<u>8.398</u>	<u>9.222</u>

Cash and balances with Central Bank are classified as current.

PJSC Commercial Bank PrivatBank – Cyprus Branch

12 Loans and advances to banks

	2015 €'000	2014 €'000
PrivatBank Group banks		
Parent entity	218.926	32.072
Correspondent accounts and deposits (Note 19)	218.926	32.072
Other banks		
Correspondent bank accounts and overnight deposits	35.502	205.296
Total other banks (Note 19)	35.502	205.296
Total loans and advances to banks - current	254.428	237.368

13 Loans and advances to customers

	2015 €'000	2014 €'000
Loans and advances to corporate entities	840.758	830.610
Loans and advances to individuals	68	98
Interest accrued on loans and advances	39.836	52.707
Gross carrying amount	880.662	883.415
Less: allowance for losses on loans and advances to customers	(46.917)	(27.686)
Net carrying amount	833.745	855.729
Current	492.862	775.569
Non-current	340.883	80.160
	833.745	855.729

Interest income on impaired loans amounts to €35.594 thousands (2014: €23.248 thousands).

The movement of the collective and specific allowance for impairment losses on loans and advances relating to corporate loans is as follows:

	2015 €'000			2014 €'000		
	Specific allowance for impairment	Collective allowance for impairment	Total	Specific allowance for impairment	Collective allowance for impairment	Total
Balance at 1 January	24.467	3.219	27.686	27.220	3.537	30.757
Increase in impairment allowance	23.003	1.195	24.198	7.848	3.219	11.067
Decrease in impairment allowance	(4.500)	(3.516)	(8.016)	(646)	(4.004)	(4.650)
Loans and advances written off during the year as uncollectible	-	-	-	(13.383)	-	(13.383)
Foreign exchange difference	2.674	375	3.049	3.428	467	3.895
Balance at 31 December	45.644	1.273	46.917	24.467	3.219	27.686

The net increase in provision (specific and collective) of €16.182 thousand (2014: €6.417 thousand) is charged to profit or loss (Note 6).

PJSC Commercial Bank PrivatBank – Cyprus Branch

14 Property, plant and equipment

	Furniture, fittings and equipment €'000	Motor vehicles €'000	Computers €'000	Leasehold improvements €'000	Total €'000
At 1 January 2014					
Cost	269	45	309	-	623
Accumulated depreciation	(168)	(45)	(278)	-	(491)
Net book amount	<u>101</u>	<u>-</u>	<u>31</u>	<u>-</u>	<u>132</u>
Year ended 31 December 2014					
Opening net book amount	101	-	31	-	132
Amount written off-cost	(7)	-	(13)	-	(20)
Amount written off-accumulated depreciation	7	-	13	-	20
Additions	3	-	10	-	13
Depreciation charge (Note 8)	(27)	-	(11)	-	(38)
Closing net book amount	<u>77</u>	<u>-</u>	<u>30</u>	<u>-</u>	<u>107</u>
At 31 December 2014					
Cost	265	45	306	-	616
Accumulated depreciation	(188)	(45)	(276)	-	(509)
Net book amount	<u>77</u>	<u>-</u>	<u>30</u>	<u>-</u>	<u>107</u>
Year ended 31 December 2015					
Opening net book amount	77	-	30	-	107
Amount written off-cost	-	-	-	-	-
Amount written off-accumulated depreciation	-	-	-	-	-
Additions	74	-	1	667	742
Depreciation charge (Note 8)	(40)	-	(11)	-	(51)
Closing net book amount	<u>111</u>	<u>-</u>	<u>20</u>	<u>667</u>	<u>798</u>
At 31 December 2015					
Cost	339	45	307	667	1.358
Accumulated depreciation	(228)	(45)	(287)	-	(560)
Net book amount	<u>111</u>	<u>-</u>	<u>20</u>	<u>667</u>	<u>798</u>

15 Deposits from banks

	2015 €'000	2014 €'000
PJSC PrivatBank Group Banks		
Parent entity (1)	404.055	185.254
Entities under common control with the Branch	5.986	5.825
Current accounts and deposits	<u>410.041</u>	<u>191.079</u>
Current	409.354	190.517
Non-current	687	562
	<u>410.041</u>	<u>191.079</u>

PJSC Commercial Bank PrivatBank – Cyprus Branch

15 Deposits from banks (continued)

(1) From the above deposits an amount equal to €210.065 thousand (2014: €nil) is attributable to the deals as follows:

- deposit in the amount of €170.031 thousand transferred by the Head Office to the Cyprus Branch until its maturity date on 4 January 2016 at interest rate of 3,19%, and
- deposit in the amount of €40.034 thousand transferred by the Head Office to the Cyprus Branch until its maturity date on 4 January 2016 at interest rate of 5,37%.

16 Deposits from customers

	2015 €'000	2014 €'000
Legal entities:		
- current accounts	174.360	268.522
- term accounts	398.444	516.362
	572.804	784.884
Individuals:		
- current accounts	30.638	36.428
- term deposits	69.696	76.010
	100.334	112.438
	673.138	897.322
Current	330.806	569.856
Non-current	342.332	327.466
	673.138	897.322

From the above deposits an amount equal to €15.502 thousand (2014: €7.122 thousand) was pledged as security for the loans and advances to customers.

As at 31 December 2015 the Branch's 10 biggest customers by deposit value accounted for 56% (2014: 60%) of the customer deposits.

Economic sector concentrations within customer deposits are as follows:

	2015		2014	
	Amount €'000	%	Amount €'000	%
Individuals	100.334	14,91	112.438	12,53
Financial Services	191.864	28,50	187.887	20,94
Trade	331.320	49,22	498.681	55,57
Manufacturing	3.628	0,54	7.587	0,85
Mechanical engineering	559	0,08	702	0,08
Transport and communication	44.470	6,61	88.778	9,89
Agriculture	4	0,00	399	0,04
Other	959	0,14	850	0,10
	673.138	100,00	897.322	100,00

PJSC Commercial Bank PrivatBank – Cyprus Branch

17 Other liabilities

	2015 €'000	2014 €'000
Funds in the process of settlement	99	150
Other payables and accruals	334	153
	<u>433</u>	<u>303</u>
Current	433	303
Non-current	-	-
	<u>433</u>	<u>303</u>

18 Head Office account

	€'000
Balance at 1 January 2014	11,880
Total comprehensive income for the year	579
Balance at 31 December 2014/1 January 2015	<u>12,459</u>
Total comprehensive income for the year	594
Balance at 31 December 2015	<u>13,053</u>

19 Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2015 €'000	2014 €'000
Cash in hand (Note 11)	1,991	1,567
Current accounts and deposit accounts with:		
PJSC PrivatBank Group banks (Note 12)	218,926	32,072
Other banks (Note 12)	35,502	205,296
Central bank (Note 11)	1	2
	<u>256,420</u>	<u>238,937</u>

Cash and cash equivalents are denominated in the following currencies:

	2015 €'000	2014 €'000
Euro	21,367	120,182
US - Dollar	234,727	118,508
Russian Rouble	70	59
Pound Sterling	246	176
Other currencies	10	12
	<u>256,420</u>	<u>238,937</u>

PJSC Commercial Bank PrivatBank – Cyprus Branch

20 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	
	2015 €'000	2014 €'000
Assets as per balance sheet:		
Cash and balances with Central Bank	8.398	9.222
Loans and advances to banks	254.428	237.368
Loans and advances to customers	833.745	855.729
Other assets (excluding prepayments)	20	25
Total	<u>1.096.591</u>	<u>1.102.344</u>
	Other financial liabilities at amortized cost	
	2015 €'000	2014 €'000
Liabilities as per balance sheet:		
Deposits from banks	410.041	191.079
Deposits from customers	673.138	897.322
Other liabilities	433	303
Head office account	12.840	12.459
Total	<u>1.096.452</u>	<u>1.101.163</u>

21 Related party transactions and balances

The entity's controlling and ultimate controlling party is PJSC Commercial Bank PrivatBank, which is incorporated in Ukraine.

During the year a number of banking transactions were entered into with the Head Office in the normal course of business. These included taking and placing of deposits and other banking services. Transactions and balances with PJSC PrivatBank Group entities are disclosed in Notes 5, 12 and 15 of the financial statements.

Other related party balances and transactions, which are not included in the notes mentioned above are as follows:

Key management compensation:

	2015 €'000	2014 €'000
Salaries and other short-term employee benefits	<u>60</u>	<u>60</u>

Entities under common control with the Branch:

	2015 €'000	2014 €'000
Fee and commission income	209	69
Deposits from customers	<u>66.645</u>	<u>133.695</u>
Loans and advances to customers	<u>754</u>	<u>637</u>
Currency dealing profit	<u>759</u>	<u>1.924</u>

PJSC Commercial Bank PrivatBank – Cyprus Branch

21 Related party transactions and balances (continued)

Guarantees provided by the Head Office

During the years 2015 and 2014 the Head Office has guaranteed certain loans and advances to customers provided by the Branch. The total principal amount of the loans guaranteed amounted to €794.327 thousand (2014: €652.517 thousand) and the accrued interest amounted to €30.267 thousand (2014: €44.381 thousand).

The maturity of these guarantees is as follows:

Year	2015 €'000	2014 €'000
Within one year	489.588	623.590
Within 1-2 years	280.080	-
Within 2-3 years	54.926	69.858
Within 3-4 years	-	3.450
	<u>824.594</u>	<u>696.898</u>

Share grant

In 2010 the majority shareholders of PrivatBank proposed to management to buy shares of PrivatBank at a price below their nominal value. The difference between the fair value of the shares and the price of the offer at the moment of the proposal in relation to share grants allocated to Branch management was €1.188 thousand and was accounted for as remuneration to the Management being part of the Administrative and other expenses of year 2010.

The number of shares offered to local management of the branch was 48 491 shares. As at the date of share grant the exercise price was about UAH 114 per share (approximately €10,72 per share). The maturity date of the share grant was extended to 31 May 2021 (2014: 31 May 2016). As of today, local management has not exercised its rights.

22 Credit related commitments

The contractual amount of credit related commitments represents the maximum credit exposure should the contract be fully drawn upon, the client defaults, and the value of any security becomes worthless.

	2015 €'000	2014 €'000
Unutilised credit lines	8.206	11.196
Export letters of credit	2.329	3.078
Guarantees issued	332	38
Less: Cash covered credit related commitments	(2.329)	(3.078)
	<u>8.538</u>	<u>11.234</u>

Operating lease commitments – where the Branch is the lessee

The Branch leases various offices under non-cancellable operating lease agreements with varying terms and renewal rights.

PJSC Commercial Bank PrivatBank – Cyprus Branch

22 Credit related commitments (continued)

Operating lease commitments – where the Branch is the lessee (continued)

The future aggregate minimum lease payments under non-cancellable building operating leases are as follows:

	2015 €'000	2014 €'000
Within one year	186	272
Later than one year and not later than five years	518	705
Later than five years	-	14
	<u>704</u>	<u>991</u>

23 Share grant reserve

	€'000
At 1 January 2014/31 December 2014/31 December 2015 (Note 21)	<u>1.188</u>

24 Post balance sheet events

Details of significant developments and transaction affecting the Branch's balance sheet and liquidity position are disclosed in Note 2.

Other than the above, there were no other material events after the balance sheet date, which have a bearing on the understanding of the financial statements.

Independent auditor's report on pages 4 to 5.

PJSC Commercial Bank PrivatBank – Cyprus Branch

Additional information to the financial statements

Based on the requirement of the Central Bank of Cyprus Directive for Loan Impairment and Provisioning the following tables are set below. Table A contains the Non Performing Loans (NPL) and restructured facilities as per the definitions of the Central Bank of Cyprus Directive for non performing and restructured facilities, by sector and type of obligor. Table B contains a vintage analysis of NPL as per the definition of the above directive.

Table A

Analysis of loan portfolio

	Gross carrying amount			Accumulated impairment		
	of which non-performing exposures	of which exposures with forbearance measures		of which on non-performing exposures	of which on exposures with forbearance measures	
Loans and advances	880.662	501.009	578.899	411.954	46.917	31.307
General governments						
Other financial corporations	395.674	294.870	305.044	245.622	3.623	2.156
Non-financial corporations	484.817	205.993	273.837	166.314	43.181	29.145
Of which: Small and Medium-sized Enterprises	313.775	182.954	162.678	143.275	42.706	29.079
Of which: Commercial real estate	51.126	51.126	20.758	20.758	6.482	309
By sector						
1 Wholesale and retail trade; repair of motor vehicles and motorcycles	324.687	96.939			7.383	
2 Transportation and storage	106.622	75.489			27.641	
3 Administrative and support service activities	20.765	20.765			312	
4 Information and communication	19.508	13			72	
5 Real estate activities	11.096	11.096			6.146	
Other sectors	2.139	1.691			1.627	
Households	171	146	18	18	113	6
Of which: Residential mortgage loans						
Of which: Credit for consumption	171	146	18	18	113	6

* Excluding loans and advances to central banks and credit institutions

PJSC Commercial Bank PrivatBank – Cyprus Branch

Additional information to the financial statements (continued)

Table B

Loans and advances to customers (excl. general governments) analysed on the basis of their origination date

	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment
Total loans granted												
Within 1 year	383.678	145.531	2.315	251.910	61.854	775	131.752	83.676	1.540	16	0	0
1 - 2 years	302.900	165.824	1.291	88.136	6	240	214.754	165.816	1.050	10	2	1
2 - 3 years	49.359	49.356	1.122	7.445	7.444	130	41.912	41.911	992	2	0	0
3 - 5 years	83.246	79.010	27.556	76.479	76.031	27.545	6.743	2.956	3	24	24	8
5 - 7 years	1.009	932	933	1.008	932	933	1	0	0	0	0	0
7 - 10 years	58.674	58.668	13.518	58.043	58.038	13.376	511	511	38	119	119	104
more than 10 years	1.796	1.688	182	1.796	1.688	182	0	0	0	0	0	0
Total loans granted	880.662	501.009	46.917	484.817	205.993	43.181	395.673	294.870	3.623	171	145	113