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**PJSC Commercial Bank
PrivatBank – Cyprus Branch**

Financial statements
For the year ended 31 December 2016

PJSC Commercial Bank PrivatBank – Cyprus Branch

Financial statements 31 December 2016

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PJSC Commercial Bank PrivatBank – Cyprus Branch

Board of Directors and Branch Management

Board of Directors of PJSC Commercial Bank “PrivatBank” (appointed on 21 December 2016)

Oleksandr Shlapak – Chairman (resigned on 24 July 2017)
Oleksandr Dubrovin
Oleg Sergeev
Galyna Pakhachuk
Oleksandr Dreling
Olexiy Beregnyy
Sergiy Kharytych
Valentyna Yarmolenko

Supervisory Board of PJSC Commercial Bank “PrivatBank”

R. Engin Akçakoca – Chairman
Francis Malige
Artem V. Shevalev
Andrea Moneta
Oksana S. Markarova
Steven Seelig
Sergiy Oleksiyenko

Branch Management

Shevchenko Kostyantyn – General Manager

Branch Registered Office

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

PJSC Commercial Bank PrivatBank – Cyprus Branch

Management report

The Board of Directors of PJSC Commercial Bank PrivatBank (the “Bank”) presents this report together with the financial statements of PJSC Commercial Bank PrivatBank – Cyprus Branch (the “Branch”) for the year ended 31 December 2016.

Current year developments

Nationalisation of the Bank. On 18 December 2016, the Deposit Guarantee Fund of Ukraine (“the DGF”) has appointed a temporary administrator to manage activities of the Bank following the decision of the NBU to declare it insolvent. At the same date the Government of Ukraine adopted a decision to become a sole shareholder of the Bank through the Ministry of Finance.

On 19-21 December 2016, in accordance with the provisions of the Law of Ukraine “On deposit guarantee system”, the DGF dismissed the Management and the Supervisory Boards of the Bank and was solely responsible for managing the Bank’s activities during these three days. The DGF converted some due to customers, Eurobonds issued and subordinated debt into the Bank’s share capital (‘bail in’). Refer to the note 1 for further details.

On 21 December 2016, subsequent to the bail in, the Bank’s shares were sold to the Ministry of Finance of Ukraine for UAH 1. As at 31 December 2016, and thereafter, the Ministry of Finance of Ukraine continues to be the sole shareholder of the Bank and the Bank is ultimately controlled by the Government of Ukraine.

Principal activities

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. On 20 December 2016, the Central Bank of Cyprus amended the Branch’s business licence. Following the amendments, and until the license is further amended, the Branch shall not engage in any banking business, other than:

- the repayment or renewal of existing deposits and the acceptance of payments towards existing credit facilities
- the repayment of administrative expenses relating to the operations of the Branch.

Review of developments, position and performance of the Branch

The loss of the Branch for the year ended 31 December 2016 was €351 100 thousand and its total assets as at 31 December 2016 were €535 847 thousand. The financial position and performance of the Branch as presented in the financial statements is considered non-satisfactory.

Going concern

Management has made an assessment of the Branch’s ability to continue as a going concern. The conditions that existed during 2016 and the developments up to the date of approval of these financial statements that have been considered in management’s going concern assessment include, amongst others, the operating environment in Ukraine (Note 1 of the financial statements), since the Branch’s ability to meet its obligations is dependent on the financial support of the Head Office.

Management believes that the Bank is taking all necessary measures to maintain its viability and the development of the Branch business in the current economic environment.

PJSC Commercial Bank PrivatBank – Cyprus Branch

Management report (continued)

Management, taking into consideration the factors described in Notes 1 and 4 of the financial statements and the uncertainties that existed at the reporting date, is satisfied that the Branch has access to the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate, despite the unstable political and economic environment in Ukraine (Note 1 of the financial statements) and the fact that, as disclosed in Note 4 of the financial statements, the Branch is currently not in compliance with its liquidity regulatory requirements and the requirement to maintain the balance due from the Head Office within the maximum limit of €50 million, which can be considered as a material uncertainty as to its ability to continue as a going concern.

Principal risks and uncertainties

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

Significant changes and developments in the operations, financial position and performance of the Branch in the foreseeable future are disclosed in Notes 2 and 23 of the financial statements.

Board of Directors

The members of the Board of Directors of PJSC Commercial Bank PrivatBank at 31 December 2016 and at the date of this report are shown on page 1. All of them were appointed as members of the Board after the nationalization of the Bank.

Events after the reporting date

Events after the reporting date are disclosed in Note 23 of the financial statements.

Independent Auditors

Ernst & Young Cyprus Limited have been appointed as the independent auditors of the Branch in replacement of PricewaterhouseCoopers Limited. Ernst & Young Cyprus 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 of Directors


Director _____
Nicosia
12 August 2017

Independent Auditor's Report

To the Shareholder of Public Joint Stock Company Commercial Bank "PrivatBank"

Report on the Audit of the Financial Statements

Disclaimer of opinion

We were engaged to audit the financial statements of the Cyprus Branch (the "Branch") of Public Joint Stock Company Commercial Bank "PrivatBank" (the "Bank"), on pages 7 to 45 and comprising the statement of financial position as at 31 December 2016, and the statements of comprehensive income, changes in Head Office account and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of the Branch. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for disclaimer of opinion

- As at 31 December 2016, the Branch recognised repossessed properties of €189 742 thousand and repossessed equipment of €7 878 thousand within repossessed collateral. We were unable to obtain sufficient appropriate audit evidence in respect of the fair value of the repossessed collateral. As a result, we were unable to determine whether any adjustments were necessary to the amounts of the repossessed collateral as at 31 December 2016 and impairment charges for 2016.
- As at 31 December 2016, the balance of deposits from customers included €294 160 thousand of deposits and current accounts from customers as discussed in Note 18 to the financial statements. The Branch did not perform an analysis of whether criteria for derecognition were met in respect of the deposits from customers described above. The effect of not analysing the derecognition criteria for the deposits from customers on the Branch's liabilities and Head Office account has not been determined.
- As at 31 December 2016, the Branch recognised an allowance for impairment of €8 432 thousand on loan to a customer with the carrying value of €10 150 thousand before allowance for impairment. We were unable to obtain sufficient appropriate audit evidence in respect of expected future cash flows from the sale of collateral used to estimate the amount of impairment allowance. As a result, we were unable to determine whether any adjustments were necessary to the amount of impairment allowance on the loan as at 31 December 2016.
- In 2016, the Branch recorded an adjustment reducing interest income by €13 749 thousand related to reduction of the interest rate of one loan during 2016 applied retrospectively from the date of the issuance of the loan. We were unable to obtain sufficient appropriate audit evidence in respect of the effects of the loan amendment on the financial statements. As a result, we were unable to determine whether any adjustments were necessary to interest income for the 2016 and recognition of loss on loan modification.
- The Branch did not account for transactions in currencies other than its functional currency (€) occurred during the year ended 31 December 2016 using the exchange rates prevailing at the dates of the transactions but used instead the exchange rates as of 31 December 2016. As a result, interest income is overstated by €4 169 thousand, interest expense is overstated by €3 486 thousand, fee and commission income is overstated by €167 thousand and loss from transactions in foreign currencies is understated by €850 thousand.

- We were unable to obtain sufficient appropriate audit evidence in respect of related party transactions for the period from 1 January 2016 to 19 December 2016, the date of the change in shareholders of the Bank. As a result, we were unable to determine whether any adjustments were necessary to the disclosure of related party transactions presented in Note 20 to the financial statements.

Material uncertainty related to going concern

- (a) We draw attention to Note 4 to the financial statements, which indicates that during 2016 and as at 31 December 2016, the Branch was not compliant with the prudential liquidity ratios and with the maximum limit as required by the instructions of the Central Bank of Cyprus in relation to the amount due from the Head Office, which indicate the existence of a material uncertainty of the Branch's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.
- (b) We draw attention to Notes 1 and 4 to the financial statements, which describe the operating environment in Ukraine to which both the Head Office and the Branch are exposed and the dependence of the Branch on its Head Office, respectively. These conditions indicate the existence of a material uncertainty of the Branch's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors 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.

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

The Board of Directors is responsible for overseeing the Branch's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Branch's financial statements in accordance with International Standards on Auditing and to issue an auditor's report.

However, because of the matters described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

We are independent of the Branch in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Branch and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matters

Auditor's responsibility

This report, including the disclaimer of opinion, has been prepared for and only for the Bank's shareholder as a body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this disclaimer of opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Comparative figures

The financial statements of the Branch for the year ended 31 December 2015 were audited by another auditor who issued an auditor's opinion on those financial statements dated 15 July 2016 with a qualified opinion in respect of the fact that they were unable to satisfy themselves as to completeness of the related party transactions and disclosures and whether any adjustments were necessary to the financial statements, and an emphasis of matters paragraphs drawing attention to political and economic uncertainties in Ukraine and the Branch's non-compliance with the prudential liquidity ratios and non-compliance with the maximum limit as required by the instructions of the Central Bank of Cyprus in relation to the amount due from the Head Office.



Savvas Pentaris

Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited

Certified Public Accountants and Registered Auditors

Nicosia

17 August 2017

PJSC Commercial Bank PrivatBank – Cyprus Branch

Statement of comprehensive income for the year ended 31 December 2016

	Note	2016 €'000	2015 €'000
Interest income	5	77 710	100 814
Interest expenses	5	(68 898)	(83 969)
Net interest income		8 812	16 845
Fee and commission income	7	2 148	2 142
Fee and commission expense	7	(26)	(120)
Gains from currency dealing		708	164
Net foreign exchange transaction gain		386	1 517
		12 028	20 548
General and administrative expenses	8	(5 052)	(3 772)
		6 976	16 776
Impairment charges	6	(357 963)	(16 182)
(Loss)/profit before income tax		(350 987)	594
Income tax expense	10	(113)	-
(Loss)/profit for the year		(351 100)	594
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(351 100)	594

The notes on pages 11 to 45 are an integral part of these financial statements.



_____, Galyna Pachachuk, Chairman of the Board

_____, Valentyna Yarmolenko, Chief accountant

PJSC Commercial Bank PrivatBank – Cyprus Branch

Statement of Financial Position as at 31 December 2016

	Note	2016 €'000	2015 €'000
Assets			
Cash and balances with Central Bank of Cyprus	11	55 499	8 398
Due from banks:			
- Due from Head Office and related banks		142 061	218 926
- Due from other banks		29	35 502
Loans and advances to customers	12	139 148	833 745
Other assets		700	398
Reposessed collateral	13	197 620	-
Income tax refundable		86	86
Leasehold improvements and equipment	14	704	798
Total assets		535 847	1 097 853
Head Office account and liabilities			
Head office account			
(Accumulated losses)/retained earnings		(336 859)	13 053
Share grant reserve	22	-	1 188
Total Head Office account		(336 859)	14 241
Liabilities			
Due to Head Office and related banks	15	350 689	410 041
Deposits from customers	16	458 898	673 138
Other liabilities	17	63 119	433
		872 706	1 083 612
Total Head Office account and liabilities		535 847	1 097 853

On 17 August 2017 the Board of Directors of PJSC Commercial Bank PrivatBank authorised these financial statements for issue.

The notes on pages 11 to 45 are an integral part of these financial statements.



_____, Galyna Pachachuk, Chairman of the Board

_____, Valentyna Yarmolenko, Chief accountant

PJSC Commercial Bank PrivatBank – Cyprus Branch

Statement of changes in Head Office account for the year ended 31 December 2016

	Note	Retained earnings/(accumu- lated losses) €'000	Share grant reserve €'000	Total €'000
At 1 January 2015		12 459	1 188	13 647
Profit for the year		594	-	594
At 31 December 2015		13 053	1 188	14 241
Loss for the year		(351 100)	-	(351 100)
Reclassification of share grant reserve into accumulated losses	22	1 188	(1 188)	-
At 31 December 2016		(336 859)	-	(336 859)
		=====	=====	=====

The notes on pages 11 to 45 are an integral part of these financial statements.



_____, Galyna Pachachuk, Chairman of the Board

_____, Valentyna Yarmolenko, Chief accountant

PJSC Commercial Bank PrivatBank – Cyprus Branch

Statement of cash flows for the year ended 31 December 2016

	Note	2016 €'000	2015 €'000
Cash flows from operating activities			
(Loss)/profit before income tax		(350 987)	594
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	14	198	51
Impairment charges	6	357 963	16 182
		<u>7 174</u>	<u>16 827</u>
Changes in working capital:			
Mandatory reserve deposits with the Central Bank of Cyprus		4 107	1 247
Compulsory deposit account with the Central Bank of Cyprus	11	(50 000)	-
Loans and advances to customers		144 028	5 802
Other assets		(303)	(196)
Deposits from banks		(59 352)	218 962
Deposits from customers		(214 240)	(224 184)
Other liabilities		62 686	130
Cash (used in)/ from operations		<u>(105 900)</u>	<u>18 588</u>
Income tax paid		(113)	(363)
Net cash (used in)/ from operating activities		<u>(106 013)</u>	<u>18 225</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	14	(108)	(742)
Net cash used in investing activities		<u>(108)</u>	<u>(742)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(106 121)</u>	<u>17 483</u>
Cash and cash equivalents at beginning of year		256 420	238 937
Foreign exchange adjustments		(5 009)	-
Cash and cash equivalents at end of year		<u><u>145 290</u></u>	<u><u>256 420</u></u>



_____, Galyna Pachachuk, Chairman of the Board

_____, Valentyna Yarmolenko, Chief accountant

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 (the “CBC”) issued on 20 July 1999. The registered office of the Branch is at 52A, Arch. Makariou III, CY-1075 Nicosia, Cyprus.

PJSC Commercial Bank PrivatBank (the Head Office” or the “Bank”) was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000. In 2009 the Bank changed its legal form to a public joint stock company limited by shares in accordance with changes in Ukrainian legislation. As at 31 December 2015, according to the share registers the ultimate major shareholders of the Bank were Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who owned directly and indirectly respectively 49.99% and 41.59% of the outstanding shares and neither of which individually controlled the Bank.

Nationalisation of the Bank

On 18 December 2016, the Deposit Guarantee Fund of Ukraine (the “DGF”) has appointed a temporary administrator to manage activities of the Bank following the decision of the National Bank of Ukraine (the “NBU”) to declare it insolvent. At the same date, the Government of Ukraine adopted a decision to become a sole shareholder of the Bank through the Ministry of Finance.

On 19-21 December 2016, in accordance with the provisions of the Law of Ukraine “On deposit guarantee system”, the DGF dismissed the Management and the Supervisory Boards of the Bank and was solely responsible for managing the Bank’s activities during these three days. The DGF recognised UAH 155.764 million of allowance for impairment of loans and advances to customers and converted UAH 10.934 million of amounts due to customers, UAH 10.721 million of Eurobonds issued and UAH 7.783 million of subordinated debt into the Bank’s share capital (the “bail in”). Refer to the Note 18 for the details of how it affected the Branch.

On 21 December 2016, subsequent to the bail in, the Bank’s shares were sold to the Ministry of Finance of Ukraine for UAH 1.

As at 31 December 2016, and thereafter, the Ministry of Finance of Ukraine continues to be the sole shareholder of the Bank and the Bank is ultimately controlled by the Government of 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. On 20 December 2016, the Central Bank of Cyprus amended the Branch’s business licence. Following the amendments, and until the license is further amended, the Branch shall not engage in any banking business, other than:

- repayment or renewal of existing deposits and the acceptance of payments towards existing credit facilities
- repayment of administrative expenses relating to the operations of the Branch.

Operating environment

The Branch, through its operations has exposure to the economy and financial markets of Ukraine and Cyprus.

PJSC Commercial Bank PrivatBank – Cyprus Branch

1 General information (continued)

Ukraine

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

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

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

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

Cyprus

Following three years of economic recession in 2011-2014, the Cyprus economy has recorded positive growth in 2015-2016. Growth is expected to be stronger in 2016 and 2017, driven by both domestic and external sources. It is forecast to gain momentum gradually and reach 2,5% in 2017.

Cyprus benefited from an economic adjustment programme, during which it emerged from recession, stabilised its financial sector, and consolidated its public finances; yet many challenges remain.

According to a second release made by the Statistical Service of Cyprus, GDP increased 3.0% year-on-year in the fourth quarter of the year 2016, bringing full year growth to 2,8%, an eight-year high. The strong print for Q4 2016 was mainly driven by a massive increase in investment and a modest acceleration in private consumption growth, which benefitted from declining unemployment and rising disposable income. Credit rating agency Standard and Poor's has taken note of Cyprus' encouraging macroeconomic performance and impressive budgetary consolidation efforts and raised the country's credit from BB to BB+ on 17 March 2017.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies

A summary of 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.

The financial statements have been prepared under the historical cost convention unless stated otherwise in the financial statements.

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.

Comparative information

Reclassifications to comparative information were made to conform to the current year presentation.

Statement of comprehensive income	As previously reported €'000	Reclassification €'000	As adjusted €'000
Gains from currency dealing	257	(93)	164
Net foreign exchange transaction gain	1 424	93	1 517

Such reclassifications did not have an impact on the profit for the year or the Head Office account of the Branch.

Adoption of new and revised International Financial Reporting Standards and Interpretations

During the current year the Branch adopted all the changes to International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016. This adoption did not have a material effect on the accounting policies of the Branch.

Standards issued by the IASB and adopted by the European Union not yet effective

Up to the date of approval of the financial statements, certain new Standards, Interpretations and Amendments to existing standards have been published that are not yet effective for the current reporting period and which the Branch has not early adopted. These are expected to have no significant impact on the Branch's financial statements when they become effective, except for the below:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The standard is expected to have a significant impact on the Branch's allowance for loan impairment. The Branch is currently assessing the impact of the new standard on its financial statements.

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income 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.

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.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Foreign currency translation

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.

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 date of the statement of financial position 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 date of the statement of financial position 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.

Financial instruments

Date of recognition

Purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the marketplace are recognized on the trade date, i.e. the date that the Branch commits to purchase or sell the asset.

Classification and initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Loans and receivables

“Balances with Central Bank of Cyprus”, “Due from banks” and “Loans and advances to customers” are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are classified as loans and receivables. After initial measurement, the amounts are measured at amortised cost using the effective interest rate method, less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in ‘Interest income’ in the statement of comprehensive income.

Financial liabilities

“Deposits from customers” and “Due to Head Office and related banks” are classified as financial liabilities. After initial measurement, they are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

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.

Impairment of financial assets - Loans and receivables

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

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower’s financial information that the Branch obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Bank. This approach ensures that the impact of losses which have not yet been specifically identified is included in the estimation of loan loss impairment.

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

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

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

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

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting

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

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

Where the Branch is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss a straight-line basis over the period of the lease.

Reposessed collateral

Reposessed collateral represents non-financial assets reposessed by the Branch in settlement of past due loans. The assets are initially recognised at lower of fair value or gross carrying value of the related loans. It is the Branch's policy to dispose of reposessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Branch does not occupy reposessed properties for business use.

Credit related commitments

The Branch enters into credit related commitments, including commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a proportion basis over the life of the commitment, except for commitments to originate loans if it is probable that the Branch will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Leasehold improvements and equipment

All leasehold improvements and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of leasehold improvements 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 year end.

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 leasehold improvements 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 leasehold improvements 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

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and balances due from banks. Cash and cash equivalents are carried at amortised cost. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

PJSC Commercial Bank PrivatBank – Cyprus Branch

2 Summary of significant accounting policies (continued)

Mandatory cash balances with the Central Bank

Mandatory cash balances with the Central Bank are carried at amortised cost and are not available to finance the Bank'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.

Head Office account

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

Share grant

Prior to December 2016, the Bank operated a share-based compensation plan for the management of the PrivatBank Group, including the management of subsidiaries and branches. The fair value of the shares issued to the Branch management for their services was recognised as the Branch's compensation expense with a corresponding increase in the share grant reserve. No vesting conditions were introduced and the shares vested immediately. This compensation plan ceased after the Bank's nationalisation.

Impairment of non-financial assets

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.

3 Financial risk management

The risk management function within the Bank, and in the Branch as a part of it, is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks. During the year 2016, the Bank reconsidered its risk management process and introduced certain changes in its risk management function, including but not limited to changes in responsibilities of specific divisions, stress-testing procedures, frequency of various reports, etc. These changes had no significant impact on the Bank's overall risk management function.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

As discussed in Note 1, political and economic situation in Ukraine deteriorated since 2014. In response to this the Bank adopted a number of changes in its risk management practices such as:

- more robust scoring process and additional stop-factors were introduced;
- decrease of lending limits on cards from UAH 15,000 to UAH 5,000;
- the Bank had stopped issuing loans and decreased loan limits for borrowers operating in areas that are not controlled by the Ukrainian authorities;
- the Bank had changed its legal entities lending process in order to reduce its exposure to certain industries; and
- the Bank ceased lending in Crimea in 2014.

As to the Cyprus branch of the Bank, it has stopped issuing loans in accordance with the amended banking license (refer to Note 1 for further details).

Information disclosed in this note related to the Bank's practices is also applicable to the Branch, if not stated otherwise.

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of bodies of the Bank under the supervision of the credit committee (the "Credit Committee"). Other bodies responsible for risk management within the Bank include the Treasury, Risk Management Division, Internal Control and Fraud-Management Division, the Finance and Risk Division. The Bank also has a system of internal controls which is supervised and monitored by its Internal Audit Division and Financial Monitoring Department. In addition, Compliance department monitors compliance of risk management process and function with regulatory and other legislative requirements.

Credit Committee

The Credit Committee meets once a week and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Bank's loan portfolio and reviewing large loan projects and the lending policies of the Bank's branches. The Credit Committee also monitors the interest rates set by the Bank's main competitors and the overall market situation and determines the Bank's pricing policy on the basis of the above. In addition, due to the importance of liquidity risk management, the Credit Committee is also responsible for decisions, which may have a significant impact on assets and liabilities, funding base and compliance with liquidity ratios.

Treasury

The Treasury is responsible for day-to-day asset and liability management. The Treasury performs an analysis and controls the Bank's liquidity position and interest rate risk exposure based on instructions and guidelines from the Finance and Risk Division and its own assessments. The Treasury also monitors and controls compliance with respective regulatory and internal risk ratios set in accordance with regulatory and internal requirements.

Finance and Risk Division

The Finance and Risk Division prepares daily reports on liquidity and interest risks, calculates and monitors respective ratios. The reports are accessible by the Treasury and other risk management function divisions. The Finance and Risk Division also develops detailed internal procedures and guidelines to manage these risks.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

Risk-Management Division

The Risk Management Division develops guidelines and policies for identification, assessment, measurement and control of credit risk, primarily in lending process, and regularly performs credit risk stress-testing. Also Risk Management Division sets limits for interbank transactions.

Internal Control and Fraud-Management Division

The Internal Control and Fraud-Management Division reviews and checks the results of work performed by the divisions of the Bank and assists in formulating management decisions on enhancing transactional security and reducing risk based on data derived from this verification process. In particular, the Internal Control and Fraud-Management Division develops methodologies for detecting suspicious and fraudulent transactions and for reducing errors in statistical analysis of data from the Bank's accounting software and other sources, and verifies risk assumptions based on the results of such analyses.

Credit risk. The Branch takes on exposure to credit risk, which is the risk that one party to a financial contract will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Branch's lending and other transactions with counterparties giving rise to financial assets.

The general principles of the Bank's credit policy are outlined in the Bank's Credit Policy. The Bank's Credit Manual regulates all key steps in lending operations of the Bank and outlines procedures to analyse borrowers' financial position and collateral valuation. Also it sets requirements for loan documentation and procedures to monitor loan performance.

The Branch's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 21. The credit risk is mitigated by collateral and other credit enhancements. For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 12. The Branch structures the levels of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or group of borrowers.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Bank has a collateral policy in place, which includes a thorough review and assessment of collateral value.

Basic information on credit risk level, including reports on the loan portfolio and problem assets volume broken down by credit programme and manager is updated weekly and reviewed both as at the current date and over a period of time. Credit Committee on a monthly basis reviews credit policies effectiveness for each business division and analysis information on the levels of non-performing loans.

Loan Approval Procedure

The lending policies and credit approval procedures of the Bank are based on strict guidelines in accordance with the NBU regulations. The Bank also has detailed regulations for collateral assessment, which is conducted by the Bank's qualified internal appraisers.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

The Bank sets lending authority limits to limit risks to the Bank arising from lending activities. Lending authority limits for senior managers of branches (comprising heads of branches, general and first deputy heads) are set twice per year by Risk-Management Division in the head office and approved by an order of the Bank together with proxies authorising the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or subbranch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by head of the relevant branch or subbranch and apply to a particular individual.

If the amount of a loan does not exceed the lending authority limit of a head of a branch or subbranch, the decision on granting the loan is taken by the credit committee of the branch. If the amount exceeds this limit, lending authority limit may be granted from the head office in accordance with the Bank's credit procedures.

Off-Balance Sheet Policy

Credit risk for off-balance sheet financial instruments is defined as a possibility of sustaining a loss as a result of another party to a financial contract failing to perform in accordance with the terms of the contract. Credit approval procedures, risk control limits and monitoring procedures for off-balance sheet financial instruments are established by the Bank.

Loan Monitoring

The Bank's IT systems allow on-line monitoring of loans' performance by Management.

The Bank reassesses credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of a borrower and (ii) assessing the sufficiency of collateral. The financial and market position of a borrower is regularly reviewed and, on the basis of such review, an internal credit rating of a borrower may be revised. The review is based on the flow of funds into customer's accounts, its most recent financial statements and other business and financial information submitted by a borrower or otherwise obtained by the Bank.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to a loan in question. The review of collateral is performed by independent appraisal companies or qualified internal appraisers. The frequency of such reviews depends on the type of collateral.

Management maintains individual records of a significant number of Ukrainian retail customers, which constitutes the largest credit history bureau in Ukraine, allowing the Bank to mitigate credit risks by targeting borrowers, who have a good credit history.

Problem Loan Recovery

The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Bank to achieve the highest level of repayment on nonperforming loans.

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine whether the cause of late payments is administrative or credit-related in nature. At this stage, credit officers contact the borrower, date to demand repayment. If such measures do not result in the repayment of the loan and the non-performance exceeds 90 days, the loan is classified as a "problem loan".

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

The Risk-Management Division, which is responsible for identification of problem loans in the Bank, issues a banking order each month to transfer problem loans from the relevant credit unit's books to a specialised unit within Soft Collection, Credit Collection and Security Division.

Soft Collection, Credit Collection and Security Division are responsible for all loans issued by the Bank classified as "problem loans", excluding loans where the total debt amounts to less than UAH 1,000 (which continue to be processed by the monitoring unit). The Security Division obtains and reviews all documentation relating to the borrower, performs an official internal investigation to identify the reasons for the problem, draws up a plan of action for the repayment of the debt and reviews the collateral (which may entail organising protection). In a number of enforcement actions the Bank initiates court proceedings. The Security Division will often engage in negotiations with the borrower over a problem loan either concurrently with, or prior to, initiating court proceedings the collateral for sale at auction, to attach the borrower's account(s) with another bank or to take possession of property under a mortgage or transport facilities. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is undergoing purely temporary business difficulties and of that borrower's willingness and capacity to repay its debt, negotiations usually aim at debt restructuring and include requirements to obtain additional collateral, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules.

Other legal actions available to the Bank include executive proceedings for the enforcement of debt and bankruptcy proceedings. In the event of any criminal action on the part of the borrower, irrespective of the borrower's readiness to repay its debt, the Bank involves the relevant state authorities. The Credit Committee meets monthly to review the status of non-performing loans.

The Bank maintains a policy not to refinance problem loans without convincing evidence they will be repaid or reliably secured.

Related Party Lending

The Bank conducts its business with related parties on commercial terms. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant.

Market risk. The Branch takes on exposure to market risks. Market risks arise from open positions in (a) currency and (b) interest rate, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Currency risk is the risk that the value of financial instruments owned by the Branch will fluctuate due to changes in foreign exchange rates. At year end, the Branch had balances predominantly in US Dollars and Euro.

Prior to the events of 2016 and restrictions to its banking license, the Branch operated on a matched funding basis for currencies other than its functional currency. 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.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

At 31 December 2016, the Branch had the following financial instruments positions in different currencies:

	EURO €'000	USD €'000	Other currencies €'000	Total €'000
Assets				
Cash on hand	2 190	344	-	2 534
Balances with the Central Bank of Cyprus	52 965	-	-	52 965
Loans and advances to banks:				
- Balances with Head Office	95 980	44 372	1 709	142 061
- Balances with other banks	24	5	-	29
Loans and advances to customers	80	139 068	-	139 148
Total assets	<u>151 239</u> =====	<u>183 789</u> =====	<u>1 709</u> =====	<u>336 737</u> =====
Liabilities				
Deposits from banks:				
- Balances with Head Office	-	347 020	-	347 020
- Balances with other banks	2 044	1 625	-	3 669
Deposits from customers	58 285	398 959	1 654	458 898
Foreign exchange forward contracts - liability	-	54 868	-	54 868
Trade payables	207	-	-	207
Total liabilities	<u>60 536</u> =====	<u>802 472</u> =====	<u>1 654</u> =====	<u>864 455</u> =====
Net balance sheet position	<u>90 703</u> =====	<u>(618 683)</u> =====	<u>55</u> =====	

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

	EURO €'000	USD €'000	Other currencies €'000	Total €'000
Assets				
Cash on hand	1 489	501	2	1 992
Balances with Central Bank of Cyprus	6 406	-	-	6 406
Loans and advances to banks:				
- Balances with Head Office	3 657	215 114	155	218 926
- Balances with other banks	16 220	19 111	171	35 502
Loans and advances to customers	4 783	828 962	-	833 745
Total assets	<u>32 555</u> =====	<u>1 063 688</u> =====	<u>328</u> =====	<u>1 096 571</u> =====
Liabilities				
Deposits from banks:				
- Balances with Head Office	-	404 055	-	404 055
- Balances with other banks	2 419	3 567	-	5 986
Deposits from customers	78 989	593 870	279	673 138
Trade payables	175	-	-	175
Total liabilities	<u>81 583</u> =====	<u>1 001 492</u> =====	<u>279</u> =====	<u>1 083 179</u> =====
Net balance sheet position	<u>(49 028)</u> =====	<u>62 196</u> =====	<u>49</u> =====	

At 31 December 2016, if the Euro had weakened/strengthened by 10% (2015: 10%) against the US dollar with all other variables held constant, pre-tax financial result for the year would have been €68 743 thousand lower/ €56 244 thousands higher (2015: €6 911 thousand higher/ €5 654 thousands lower), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated financial assets and liabilities.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

Interest rate risk. The Bank is exposed to the risk of financial losses as a result of possible changes in interest rates of financial instruments. Interest margins may increase due to such changes but may decrease or result in losses in the event that unexpected movements arise. Management sets limits on the acceptable level of mismatch of interest rates on financial assets and liabilities sensitive to interest rates, which is monitored regularly.

The Branch is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities could be revised to reflect current market conditions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. Quarterly (or as required), the Financial and Risk Division conducts stress testing (simple sensitivity tests) to determine the Bank's exposure to possible losses and interest income sensitivity to them assuming rates fluctuation of 1%.

The Bank also regularly performs interest rate gaps analysis of financial assets and liabilities sensitive to interest rates. For this fixed interest rate assets and liabilities are arranged by remaining maturities, while assets and liabilities with a variable interest rate are arranged by the earliest repricing dates. The net sensitivity gap between assets and liabilities in a given time band represents the exposure sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest bearing assets exceed interest-earning liabilities in that time band, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

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

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

At 31 December 2016:

	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 on hand	-	-	-	-	2 534	2 534
Balances with the Central Bank of Cyprus	52 965	-	-	-	-	52 965
Loans and advances to banks:						
- Balances with Head Office	142 061	-	-	-	-	142 061
- Balances with other banks	29	-	-	-	-	29
Loans and advances to customers	-	100	144	138 904	-	139 148
Total assets	<u>195 055</u> =====	<u>100</u> =====	<u>144</u> =====	<u>138 904</u> =====	<u>2 534</u> =====	<u>336 737</u> =====
Liabilities						
Deposits from banks:						
- Balances with Head Office	-	-	-	347 020	-	347 020
- Balances with other banks	1 461	306	1 246	656	-	3 669
Deposits from customers	101 269	10 371	248 361	45 359	53 538	458 898
Foreign exchange forward contracts - liability	-	-	-	-	54 868	54 868
Trade payables	-	-	-	-	207	207
Total liabilities	<u>102 730</u>	<u>10 677</u>	<u>249 607</u>	<u>393 035</u>	<u>108 613</u>	<u>864 662</u>
Net balance sheet position	<u>92 325</u> =====	<u>(10 577)</u> =====	<u>(249 462)</u> =====	<u>(254 132)</u> =====		

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

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 on hand	-	-	-	-	1 992	1 992
Balances with the Central Bank of Cyprus	6 406	-	-	-	-	6 406
Loans and advances to banks:						
- Balances with Head Office	218 926	-	-	-	-	218 926
- Balances with other banks	35 502	-	-	-	-	35 502
Loans and advances to customers	101 695	59 891	331 276	340 883	-	833 745
Total assets	362 530	59 891	331 276	340 883	1 991	1 096 571
	Within 1 month €'000	Over 1 month to 3 months	Over 3 months to 1 year €'000	Over 1 year €'000	Non- interest bearing €'000	Total €'000
Liabilities						
Deposits from banks:						
- Balances with Head Office	210 065	-	193 990	-	-	404 055
- Balances with other banks	86	2 503	2 710	687	-	5 986
Deposits from customers	124 783	35 761	157 101	246 231	109 262	673 138
Trade payables	-	-	-	-	175	175
Total liabilities	334 933	38 264	353 802	246 918	109 437	1 083 612
Net interest rate sensitivity gap	27 597	21 627	(22 526)	93 965		

Liquidity risk. Liquidity risk is the Branch will be unable to meet its obligations. Liquidity risk arises from the mismatch of the Branch's financial assets and financial liabilities (including due to untimely performance of financial obligations by one or more counterparties of the Branch) and (or) emergence of unexpected necessity of immediate and simultaneous discharging by the Branch of its financial obligations. Liquidity risk is managed by the Treasury of the Bank.

The Bank's liquidity management includes maintenance of such level of liquid assets as necessary to settle obligations when they fall due; maintenance of access to a range of funding sources and funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank seeks to maintain a stable funding base and develop sources of resources primarily consisting of amounts due to corporate and retail customers. The Treasury accumulates an adequate portfolio of short-term liquid assets, largely made up of correspondent accounts, overnights placements and deposits with other banks and other interbank facilities, to ensure that sufficient liquidity is maintained.

PJSC Commercial Bank PrivatBank – Cyprus Branch

3 Financial risk management (continued)

The Bank calculates regulatory liquidity ratios set by the National Bank of Ukraine on a daily basis. At the same time, the Branch calculates its own mismatch liquidity ratios every day, and submits them to the Head office for monitoring. These ratios are:

- “sight to 7 days” liquidity ratio, which is calculated as the ratio of the assets to liabilities that mature within 7 days. The ratio was 0,93% at 31 December 2016 (31 December 2015: -26,94%) with the minimum required limit of -7,5% (31 December 2015: -10%).
- “sight to 1 month” liquidity ratio, which is calculated as the ratio of liquid assets to liabilities maturing within 1 month. The ratio was -7,55% at 31 December 2016 (31 December 2015: -28,81%) with the minimum required limit of -20% (31 December 2015: -25%).
- stock liquidity ratio, which is calculated as the ratio of liquid assets to liabilities with remaining maturity of up to one year. The ratio was 22,71% at 31 December 2016 (31 December 2015: 24,28%) with the minimum required limit of 25% (31 December 2015: 20%).

The liquidity risk reports are used by the Treasury to manage liquidity on a day-to-day basis.

Head of the Treasury is responsible for decisions to manage current liquidity. The Treasury reviews payment schedules biweekly and manages liquidity position real-time by selling investment securities, placing or attracting short-term resources at interbank market or through other available financial facilities. The Treasury also analyses the possible consequences of the withdrawal of a large amount of funds by major customers to minimise unexpected changes in funding requirements. Responsible divisions coordinate changes in scheduled payments with the customers if required. The Treasury ensures compliance with the mandatory reserve requirement and the regulatory liquidity ratios. The Credit Committee reviews liquidity risk reports to control the decisions.

The Bank also has a liquidity crisis plan in place, which includes early warning indicators and a step-by-step procedures in the event of unexpected liquidity emergencies for the divisions of the Bank as well as for their coordination. The Finance and Risk Division also regularly conducts liquidity stress-testing under normal or more severe market conditions scenarios.

The tables below analyze the financial liabilities of the Branch into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

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3 Financial risk management (continued)

At 31 December 2016:

	Up to 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	From 1 to 5 years €'000	Over 5 years €'000	Total €'000
Financial liabilities						
Deposits from banks:						
- Due to Head Office	2 753	3 756	11 102	239 303	181 876	438 790
- Due to other banks	1 479	329	1 307	748	-	3 863
Deposits from customers	226 001	19 844	185 133	52 860	-	483 838
Foreign exchange forward contracts - liability	54 868	-	-	-	-	54 868
Trade payables	207	-	-	-	-	207
	<u>285 308</u>	<u>23 929</u>	<u>197 542</u>	<u>292 911</u>	<u>181 876</u>	<u>981 566</u>
	=====	=====	=====	=====	=====	=====
	Up to 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	Over 1 year €'000	Over 5 years €'000	Total €'000
Credit related commitments (off- balance sheet items)						
Unutilised credit lines	11 120	-	-	-	-	11 120
Import letters of credit	2 423	-	-	-	-	2 423
Guarantees issued	15	-	-	-	-	15
Less: Cash covered credit related commitments	(2 423)	-	-	-	-	(2 423)
Less: Provision for losses on credit related commitments	(7 056)	-	-	-	-	(7 056)
	<u>4 079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4 079</u>
	=====	=====	=====	=====	=====	=====

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:					
- Due to Head Office	210 149	1 962	195 681	-	407 792
- Due to other banks	126	2 566	2 816	835	6 343
Deposits from customers	239 044	44 415	191 499	266 041	740 999
Trade payables	175	-	-	-	175
	<u>449 494</u>	<u>48 943</u>	<u>389 996</u>	<u>266 876</u>	<u>1 155 309</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>8 538</u>
	=====	=====	=====	=====	=====

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3 Financial risk management (continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2016 is set out below:

	OECD €'000	Non-OECD €'000	Total €'000
Assets			
Cash in hand	-	2 534	2 534
Balances with Central Bank of Cyprus	-	52 965	52 965
Loans and advances to banks:			
- Balances with Head Office	-	142 061	142 061
- Balances with other banks	-	29	29
Loans and advances to customers	152	138 996	139 148
Total assets	<u>152</u>	<u>336 585</u>	<u>336 737</u>
	=====	=====	=====
Liabilities			
Deposits from banks:			
- Balances with Head Office	-	347 020	347 020
- Balances with other banks	3 669	-	3 669
Deposits from customers	339 249	119 649	458 898
Foreign exchange forward contracts - liability	-	54 868	54 868
Trade payables	-	207	207
Total liabilities	<u>342 918</u>	<u>521 744</u>	<u>864 455</u>
	=====	=====	=====
Net balance sheet position	<u>(342 766)</u>	<u>(185 159)</u>	<u>=====</u>
	=====	=====	

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 in hand	-	1 992	1 992
Balances with Central Bank of Cyprus	-	6 406	6 406
Loans and advances to banks:			
- Balances with Head Office	-	218 926	218 926
- Balances with other banks	35 438	64	35 502
Loans and advances to customers	54 281	779 464	833 745
Total assets	<u>89 719</u>	<u>1 006 852</u>	<u>1 096 571</u>
	=====	=====	=====
Liabilities			
Deposits from banks:			
- Balances with Head Office	-	404 055	404 055
- Balances with other banks	-	5 986	5 986
Deposits from customers	405 198	267 940	673 138
Trade payables	1	174	175
Total liabilities	<u>405 199</u>	<u>678 155</u>	<u>1 083 354</u>
	=====	=====	=====
Net balance sheet position	<u>(315 480)</u>	<u>328 697</u>	<u>=====</u>
	=====	=====	

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4 Critical accounting estimates and judgements

The Branch makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Going concern

These financial statements have been prepared on the going concern basis, which assumes that the Branch will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of business.

For the year ended 31 December 2016, the Branch recognised a net loss of €351 100 thousand resulting primarily from €357 963 thousand of charge for impairment of loans and advances to customers and credit related commitments. The Branch's Head Office account was a cumulative loss of €336 859 thousand as at 31 December 2016. In addition, the Branch had a gap of €167 715 thousand between assets and liabilities with maturity of less than one year, which may lead to the Branch's inability to meet its payment obligations. Also, as at 31 December 2016, the Branch was not in compliance with the following requirements of the Central Bank of Cyprus:

1. *Liquid assets ratio.* After 16 December 2016, prudential liquidity ratios of the Branch have deteriorated and as at 31 December 2016 were as follows: up to 7 days – 0,93%; 8 days to 1 month – (7,55%); liquid assets ratio – 22,71% (this ratio was not in compliance with the Central Bank of Cyprus requirements: the minimum values was set as 25%).
2. *Amount due from the Head Office.* The CBC's requirement of immediate reduction of the amount due from the Head Office so as to be brought within the maximum limit of €50mIn was not met. The amount due from Head Office was €142 million as at 31 December 2016. The Branch together with the Treasury department of the Bank have to take actions to establish corresponding deposit accounts with third party financial institutions in order to reduce the balance due from the Head Office.

The Branch's ability to meet its obligations is dependent on the financial support of the Head Office and, therefore, dependant of the ability of the Bank to continue as a going concern and its willingness to maintain its presence in Cyprus through the Branch.

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4 Critical accounting estimates and judgements (continued)

For the year ended 31 December 2016, the Bank recognised a net loss of UAH 176 238 million resulting primarily from UAH 154 617 million of charge for impairment of loans and advances to customers, and it experienced net cash outflow from its operating activities of UAH 19 430 million. The Bank's negative equity position was UAH 882 million as at 31 December 2016. In addition, the Bank had a gap of UAH 132 424 million between assets and liabilities with maturity of less than one year, which may lead to the Bank's inability to meet its payment obligations.

In February 2017, the Bank's share capital was further increased by UAH 9 800 million.

According to the "Letter of Intent" addressed to the International Monetary Fund dated 2 March 2017 and signed by the President, the Prime Minister, the Minister of Finance and the Governor of the NBU (the Letter), Ukraine is taking decisive steps to ensure that the nationalization of the Bank is efficient and transparent. The Letter stated that by the end of May 2017 the Ministry of Finance will decide on final steps to complete the Bank's restructuring, including the coverage of any additional capital needs assessed at that time.

In addition, the Letter envisaged involvement of an internationally recognized firm that, on behalf of the Bank will negotiate the restructuring and collection terms of the loans with a gross carrying value of approximately UAH 155 billion, as well as of other impaired loans, which requires the use of similar approach, on the basis of international best practices, including as a minimum borrowers' and lessees' reliable and credible supporting information on ultimate beneficiary owners, financials, main activities. The firm was selected by the Supervisory Board of the Bank in April 2017.

In January 2017, management of the Bank set up a separate department on restructuring of toxic assets, which performed analysis of and categorized the portfolio of assets with a total carrying value (gross) of UAH 193 889 million as at 31 December 2016. In addition, the Bank's management approved the Bank's financial model which comprise, in particular, the following steps:

- increase in profitability of banking products;
- expansion of alternative distribution channels;
- increase in credit card issuance;
- decrease in overheads including expenses on the branch network.

The Bank's management analysed all available information and considering their possible effect came to the conclusion that the going concern assumption is still applicable for both the Bank and the Branch as of 31 December 2016.

Management, taking into consideration the factors described in Notes 1 and above and the uncertainties that existed at the reporting date, is satisfied that the Branch has access to the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate, despite the unstable political and economic environment in Ukraine (Note 1) and the fact that, as disclosed above, the Branch is currently not in compliance with its liquidity regulatory requirements and the requirement to maintain the balance due from the Head Office within the maximum limit of €50 million, which can be considered as a material uncertainty as to its ability to continue as a going concern.

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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.

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, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and 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. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

Income taxes

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.

5 Interest income and expense

	2016 €'000	2015 €'000
Interest income		
Due from Head Office	26 481	9 483
Due from other banks	66	4
Loans and advances to customers	51 163	91 327
Total interest income	77 710	100 814
Interest expense		
Due to Head Office	15 490	8 896
Due to related banks	336	493
Deposits from customers	53 072	63 314
Total interest expense	68 898	83 969
Net interest income	8 812	16 845

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6 Impairment charges

	2016 €'000	2015 €'000
Impairment charge for credit losses arising from:		
Loans and advances to customers	350 908	16 182
Credit related commitments	7 055	-
	<u>357 963</u>	<u>16 182</u>
	=====	=====

7 Fee and commission income and expense

	2016 €'000	2015 €'000
Fee and commission income		
Cash and settlement services	2 110	2 091
Letters of credit and guarantees	19	25
Other fee and commission income	19	26
	<u>2 148</u>	<u>2 142</u>
	=====	=====
Fee and commission expense		
Cash and settlement transactions	26	120
	=====	=====

8 General and administrative expenses

	2016 €'000	2015 €'000
Staff costs (Note 9)	1 422	1 418
Depreciation of leasehold improvements and equipment (Note 14)	198	51
Operating lease rentals	195	281
Professional fees	282	111
Legal fees	124	64
Statutory auditor – audit fees	160	87
Statutory auditor – tax consultancy services	76	39
Mail and telecommunications	98	99
Maintenance costs	30	36
Entertainment expenses	4	6
Advertising and marketing expenses	2	133
Bank levy on customer deposits (1)	941	1 339
Fines paid (2)	1 305	2
Other expenses	215	106
	<u>5 052</u>	<u>3 772</u>
	=====	=====

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

(2) In 2016, the Branch was fined by the CBC for €1,5 million for non-compliance in anti-money laundering policies of the Branch. The CBC offered a discount for early payment, therefore the amount of the fine was reduced to €1 305 thousand.

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9 Staff costs

	2016 €'000	2015 €'000
Wages and salaries	1 273	1 272
Social insurance and other contributions	149	146
	<u>1 422</u>	<u>1 418</u>
	=====	=====

In 2016 average number of employees of the Branch was 36 (2015: 32).

10 Income tax expense

	2016 €'000	2015 €'000
Current tax:		
Income tax	113	-
	<u>113</u>	<u>-</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:

	2016 €'000	2015 €'000
(Loss)/profit before income tax	(350 987)	594
	=====	=====
Tax calculated at the applicable corporation tax rate of 12,5%	(43 873)	74
Tax effect of expenses not deductible for tax purposes	1 056	323
Tax effect of allowances and income not subject to tax	-	(622)
Tax effect of tax losses carried forward	42 817	225
Overpayment of tax	113	-
	<u>113</u>	<u>-</u>
	=====	=====
Income tax charge		

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

Under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 30%.

In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 17% as from 1 January 2014. In certain cases dividends received 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.

Tax losses may be carried forward for a period of five years from the end of the tax year they relate to, but no carry back of tax losses is allowed. At 31 December 2016, the Branch had cumulative tax losses in Cyprus amounting to €344 355, which can be carried forward and set off against future taxable profits as follows: €1 800 thousand until 31 December 2020 and €342 535 thousand until 31 December 2021. No deferred tax asset is recognised in respect of these losses as the Company does not expect to generate sufficient taxable profits for these losses to be realised.

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11 Cash and balances with Central Bank of Cyprus

	2016 €'000	2015 €'000
Cash in hand	2 534	1 992
Mandatory reserve account with the Central Bank of Cyprus*	2 299	6 406
Compulsory deposit account with the Central Bank of Cyprus*	50 000	-
Cash balances with the Central bank of Cyprus	666	-
	<u>55 499</u>	<u>8 398</u>
	=====	=====

* The amounts are not currently available for use to the Branch.

12 Loans and advances to customers

	2016 €'000	2015 €'000
Loans and advances to corporate entities	522 345	840 758
Loans and advances to individuals	52	68
Interest accrued on loans and advances	16 618	39 836
Gross carrying amount	<u>539 015</u>	<u>880 662</u>
Less: allowance for losses on loans and advances to customers	<u>(399 867)</u>	<u>(46 917)</u>
Net carrying amount	<u>139 148</u>	<u>833 745</u>
	=====	=====

Interest income on impaired loans amounts to €27 300 thousand (2015: €35 594 thousand).

During 2016, the Branch repossessed collateral under defaulted loan agreements with a carrying value of €197 620 thousand as at 31 December 2016. Refer to Note 13.

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

	2016 €'000			2015 €'000		
	Specific allowance for impairment	Collective allowance for impairment	Total	Specific allowance for impairment	Collective allowance for impairment	Total
Balance at 1 January	45 644	1 273	46 917	24 467	3 219	27 686
	=====	=====	=====	=====	=====	=====
Provision for impairment	352 228	(1 325)	350 903	18 503	(2 321)	16 182
Loans and advances written off during the year as uncollectible	-	-	-	-	-	-
Foreign exchange difference	1 985	57	2 042	2 674	375	3 049
Balance at 31 December	<u>399 862</u>	<u>5</u>	<u>399 867</u>	<u>45 644</u>	<u>1 273</u>	<u>46 917</u>
	=====	=====	=====	=====	=====	=====

PJSC Commercial Bank PrivatBank – Cyprus Branch

12 Loans and advances to customers (continued)

Economic and business sector risk concentrations within the customer loan portfolio are as follows:

	2016		2015	
	€'000	%	€'000	%
Individuals	59	0	75	0
Oil trading	45 120	8	68 126	8
Commerce and finance	184 321	35	245 938	28
Agriculture, forestry and food industry	1 722	0	43 496	5
Metallurgy and mining	119 818	22	209 038	24
Securities trading	28 601	5	311 626	35
Transport, storage and communication	157 352	30	-	0
Other	2 022	0	2 363	0
Gross carrying amount	539 015	100	880 662	100

As at 31 December 2016, the Branch's 10 biggest customers by value of advances accounted for 80% (2015: 36%) of the loans and advances to customers.

Analysis by credit quality of loans and advances to customers is as follows:

	2016 €'000	2015 €'000
Neither past due nor impaired	78	379 636
Past due but not impaired	138	16
Individually impaired	538 799	501 010
Total loans and advances to customers	539 015	880 662

Analysis by credit quality of neither past due nor impaired loans and advances to customers outstanding at 31 December is as follows:

	2016 €'000	2015 €'000
- Large borrowers with credit history with the Group over two years	-	237 267
- Large new borrowers with credit history with the Group less than two years	-	136 029
- Loans to medium size borrowers	-	5 663
- Loans to small entities	78	677
Total neither past due nor impaired	78	379 636

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

	2016 €'000	2015 €'000
- Less than 30 days overdue	6	2
- 30 to 90 days overdue	132	14
Total past due but not impaired	138	16

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12 Loans and advances to customers (continued)

Breakdown of loans and advances to customers by type of collateral as of 31 December 2016 is as follows:

In €'000	
Unsecured exposures	69 202
Loans collateralised by:	
- cash deposits	108 361
- listed equity securities	2 811
- transport vehicles	161 763
- other real estate	2 356
- equipment	54 815
- other assets	139 707
Total loans and advances to customers (before impairment)	539 015
	=====

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

In €'000	
Unsecured exposures	86 542
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)	880 662
	=====

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

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

2016				2015			
<u>Over-collateralised loans</u>		<u>Under-collateralised loans</u>		<u>Over-collateralised loans</u>		<u>Under-collateralised loans</u>	
Carrying value of loans and advances to customers	Expected cash flows from collateral realisation	Carrying value of loans and advances to customers	Expected cash flows from collateral realisation	Carrying value of loans and advances to customers	Carrying value of loans and advances to customers	Carrying value of loans and advances to customers	Carrying value of loans and advances to customers
€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
138 803	164 641	345	-	410 465	621 814	423 280	266 139
=====	=====	=====	=====	=====	=====	=====	=====

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13 Repossessed collateral

In 2016, the Branch took possession of various collateral as a settlement of past due loans to customers with a total carrying value of €197 620 thousand as at 31 December 2016. The Branch expects to dispose of these assets in an orderly fashion. The assets were initially recognised at fair value when repossessed.

14 Leasehold improvements and equipment

	Furniture and equipment €'000	Motor vehicles €'000	Computers €'000	Leasehold improvements €'000	Total €'000
At 1 January 2015					
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>
Additions	74	-	1	667	742
Depreciation charge	(40)	-	(11)	-	(51)
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>
Amount written off-cost	=====	=====	=====	=====	=====
Amount written off-accumulated depreciation	(52)	(5)	(12)	-	(69)
Additions	86	-	22	-	108
Depreciation charge	(39)	-	(9)	(150)	(198)
At 31 December 2016					
Cost	373	40	317	667	1 397
Accumulated depreciation	(219)	(40)	(284)	(150)	(693)
Net book amount	<u>154</u>	<u>-</u>	<u>33</u>	<u>517</u>	<u>704</u>
	=====	=====	=====	=====	=====

15 Due to Head Office and related banks

	2016 €'000	2015 €'000
Due to Head Office	347 020	404 055
Entities under common control with the Branch	3 669	5 986
Current accounts and deposits	<u>350 689</u>	<u>410 041</u>

PJSC Commercial Bank PrivatBank – Cyprus Branch

16 Deposits from customers

	2016 €'000	2015 €'000
Legal entities:		
- current accounts	44 274	174 360
- term accounts	356 320	398 444
	<u>400 594</u>	<u>572 804</u>
Individuals:		
- current accounts	10 591	30 638
- term deposits	47 713	69 696
	<u>58 304</u>	<u>100 334</u>
	<u>458 898</u>	<u>673 138</u>
	=====	=====

From the above deposits an amount equal to €13 603 thousand (2015: €15 502 thousand) was pledged as security for the loans and advances to customers.

As at 31 December 2016, the Branch's 10 biggest customers by deposit value accounted for 71% (2015: 56%) of the customer deposits.

Economic sector concentrations within customer deposits are as follows:

	2016		2015	
	Amount €'000	%	Amount €'000	%
Individuals	58 304	13	100 334	15
Services	183 836	40	191 864	29
Trading and finance	158 878	35	331 320	49
Manufacturing	273	0	3 628	1
Mechanical engineering	315	0	559	0
Transport and communication	57 288	13	44 470	7
Agriculture	4	0	4	0
Other	-	0	959	0
	<u>458 898</u>	<u>100</u>	<u>673 138</u>	<u>100</u>
	=====	=====	=====	=====

17 Other liabilities

	2016 €'000	2015 €'000
Funds in the process of settlement	853	99
Other payables and accruals	343	334
Provision for losses on credit related commitments	7 055	-
Foreign exchange forward contracts – liability (a)	54 868	-
	<u>63 119</u>	<u>433</u>
	=====	=====

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17 Other liabilities (continued)

- (a) The foreign exchange forward contracts represent contracts with the Head Office which matured on 19 December 2016. As discussed in Note 1, on 18 December 2016, the DGF appointed the temporary administration to manage the activities of the Bank, which resulted in all activities within the Bank having been suspended for 3 days following the appointment of the temporary administration. On 20 December 2016, the CBC amended the Branch's business licence, forbidding the Branch to engage in any banking business other than repayment or renewal of existing deposits and the acceptance of payments towards existing credit facilities, and repayment of administrative expenses relating to the operations of the Branch. The amended license made it impossible for the Branch to settle the forward contracts with the Head Office. At the time of the approval of these financial statement, this liability remains outstanding.

18 Bail in

As discussed in Note 1, the DGF issued a series of decisions to convert certain amounts due to customers into the Bank's share capital. One of the DGF's decisions dated 21 December 2016 applied to the Branch and covered a number of the Branch's deposits from customers and a balance from a related bank ("the Order No10"). The balances of the Branch's deposits from customers and a balance from a related bank included in the Order No10 were \$307 535 thousand, €8 727 thousand and £100 thousand as per the order.

However, as also discussed in Note 1, on 20 December 2016, the CBC amended the Branch's banking license. As per the amended license, the Branch is not allowed to carry out interbank transactions with the Head Office and other related banks. Thus, the actions prescribed in the Order No10 contradicted with the provisions of the amended banking license. In view of the above, the DGF issued a new decision dated 21 December 2016, which suspended the Order No10 ("the Order No11").

The Bank and the Branch are currently assessing the legal implications of the Order No10 and the Order No11. The outcome of the aforementioned transactions is not yet known as of the date of the approval of these financial statements.

On 4 May 2017, the Head Office issued a decision ordering the Branch to terminate the interest accrual on deposits included in the Order No10. The accrual of the interest was terminated in the Branch records for the affected deposits from customers effective 19 December 2016.

Also, the Branch is currently involved in several legal actions and court cases, including subsequent to the bail-in procedure. Balances on the customer accounts of the clients involved in litigations with the Branch were €283 341 thousand as at 31 December 2016. The Bank engaged experienced international law companies to protect its vital interests that could be affected in result of legal actions. The ultimate outcome can not be determined. Consequently, the Branch does not recognize any provision for these claims.

19 Presentation of financial instruments by measurement category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. The standard classifies financial liabilities into the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at fair value through profit or loss. In addition, derivative instruments form a separate category.

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19 Presentation of financial instruments by measurement category (continued)

The following table provides a reconciliation of financial assets and liabilities with these measurement categories as at 31 December:

	Loans and receivables	
	2016 €'000	2015 €'000
Assets as per the statement of financial position:		
Balances with the Central Bank of Cyprus	52 965	6 407
Due from banks	142 090	254 428
Loans and advances to customers	139 148	833 745
Total	<u>334 203</u>	<u>1 094 580</u>
	=====	=====
	Other financial liabilities at amortized cost	
	2016 €'000	2015 €'000
Liabilities as per the statement of financial position:		
Due to Head Office and related banks	350 689	410 041
Deposits from customers	458 898	673 138
Other liabilities	63 119	433
Total	<u>872 706</u>	<u>1 083 612</u>
	=====	=====

20 Related party transactions and balances

In accordance with IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control, joint control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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 the Head Office and related banks are disclosed in Notes 5, 15 and 17 of the financial statements.

As discussed in Note 1, the Bank is 100% owned by the Government starting from 19 December 2016. Other transactions and balances with related parties before the change in the Bank's ownership, which are not included in the notes mentioned above are as follows:

Key management compensation:

	2016 €'000	2015 €'000
Salaries and other short-term employee benefits	<u>60</u>	<u>60</u>

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20 Related party transactions and balances (continued)

Entities under common control:

	2016 €'000	2015 €'000
Deposits from customers	8 468	66 645
Loans and advances to customers	146 501	754
Reposessed collateral	190 361	-
Interest income on loans from customers	12 312	4
Interest expense on customers' deposits	3 561	11 266
Fee and commission income	326	209
Currency dealing profit	128	759

21 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.

	2016 €'000	2015 €'000
Unutilised credit lines	11 120	8 206
Import letters of credit	2 422	2 329
Guarantees issued	15	332
Less: Cash covered credit related commitments	(2 423)	(2 329)
Less: Provisions for credit related commitments	(7 055)	-
	4 079	8 538

In 2016, provisions for irrevocable commitments to extend credit were made for the total amount of €7 055.

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.

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

	2016 €'000	2015 €'000
Within one year	186	186
Later than one year and not later than five years	364	518
Later than five years	-	-
	550	704

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22 Share grant reserve

In 2010, the majority shareholders of the Bank proposed to management to buy shares of the Bank 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 the Branch management was €1 188 thousand and was accounted for as remuneration to the Branch management being part of the administrative and other expenses of year 2010. The number of shares offered to the Branch management 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).

After the Nationalisation of the Bank, all the shares of previous management were converted into the Bank's equity. In case of the Branch, the share grant reserve was reclassified into accumulated losses.

23 Events after the reporting date

Details of significant developments and transaction affecting the Branch's financial position and liquidity position are disclosed in Note 4.

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

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ADDITIONAL RISK DISCLOSURES (UNAUDITED)

The table below presents an analysis of the Branch's credit facilities portfolio according to performance status, as at 31 December 2016.

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
	€000	€000	€000	€000	€000
Loans and advances					
General governments	539 015	538 799	121 769	399 867	119 143
Other financial corporations	105 837	105 813	11 333	105 813	11 333
Non-financial corporations	433 009	432 833	110 418	293 901	107 792
Of which: Small and Medium-sized Enterprises	366 184	366 019	82 562	227 223	79 936
Of which: Commercial real estate	10 150	10 150	0	8 432	0
By sector					
1 Transportation and storage	232 711	232 701		95 647	
Wholesale and retail trade; repair of motor vehicles and motorcycles	183 918	183 755		183 618	
3 Real estate activities	11 897	11 897		10 180	
Professional, scientific and technical activities	2 652	2 650		2 626	
5 Manufacturing	1 792	1 792		1 792	
Other sectors	39	38		38	
Households	169	153	18	153	18
Of which: Residential mortgage loans					
Of which: Credit for consumption	169	153	18	153	18

* Excluding loans and advances to central banks and credit institutions

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ADDITIONAL RISK DISCLOSURES (UNAUDITED) (continued)

The analysis of loans and advances to customers excluding loans and advances to general government by year of origination is presented in the table below for balances as at 31 December 2016.

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

Total loans granted	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
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	314 370	314 344	177 290	221 685	221 662	84 608	92 682	92 682	92 682	3	0	0
1 - 2 years	159 191	159 183	159 161	151 719	151 719	151 698	7 464	7 464	7 463	8	0	0
2 - 3 years	13	1	1	10	1	1	0	0	0	3	0	0
3 - 5 years	42 715	42 707	42 707	38 319	38 313	38 313	4 394	4 394	4 394	2	0	0
5 - 7 years	890	756	759	110	0	2	762	738	739	18	18	18
7 - 10 years	18 588	18 560	16 844	18 559	18 531	16 815	4	4	4	25	25	25
more than 10 years	3 248	3 248	3 105	2 607	2 607	2 464	531	531	531	110	110	110
Total loans granted	539 015	538 799	399 867	433 009	432 833	293 901	105 837	105 813	105 813	169	153	153