

**PUBLIC JOINT-STOCK COMPANY  
JOINT STOCK BANK “UKRGASBANK”**

**Interim Condensed Financial Statements**

*for the nine months ended 30 September 2016  
(unaudited)*

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**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**

**as at 30 September 2016**

(in Hryvnias and in thousands)

	Notes	30 September 2016	31 December 2015
<b>Assets</b>			
Cash and cash equivalents	7	3,430,886	3,969,997
Precious metals		17,078	24,267
Due from credit institutions	8	12,828,617	9,623,078
Derivative financial assets	9	6,637	14,707
Loans to customers	10	17,244,223	14,029,078
Investment securities at fair value through profit and losses	11	376,029	-
Investment securities available for sale	12	21,091,548	8,341,186
Investments held to maturity	13	-	3,023,728
Investment property	14	55,789	47,528
Property and equipment and intangible assets	15	1,329,938	1,145,495
Assets held for sale	16	1,121,088	970,165
Current income tax assets		4,921	4,921
Deferred income tax assets	17	44,726	79,358
Other assets	19	357,258	281,832
<b>Total assets</b>		<b>57,908,738</b>	<b>41,555,340</b>
<b>Liabilities</b>			
Due to the National Bank of Ukraine	20	598,473	4,284,258
Due to credit institutions	21	1,964,027	4,991,323
Derivative financial liabilities	9	26,423	37,898
Due to customers	22	50,136,510	27,510,140
Provisions for guarantees and commitments	18	111,112	2,461
Other liabilities	19	311,607	436,614
<b>Total liabilities</b>		<b>53,148,152</b>	<b>37,262,694</b>
<b>Equity</b>			
Share capital	23	13,837,000	13,837,000
Acquired title of ownership to shares		(518,439)	(518,439)
Result from transactions with shareholders	24	(1,102,304)	(1,102,304)
Additional paid-in capital		135,942	135,942
Other reserves	23	228,461	(122,850)
Accumulated deficit		(7,820,074)	(7,936,703)
<b>Total equity</b>		<b>4,760,586</b>	<b>4,292,646</b>
<b>Total equity and liabilities</b>		<b>57,908,738</b>	<b>41,555,340</b>

Authorized and signed on behalf of the Bank's management by:

Andrii Kravets

Acting Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

24 October 2016

Makhkamova  
239-28-36

Notes on the pages from 6 to 53 form an integral part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME**

**for the 9 months ended 30 September 2016**

(in Hryvnias and in thousands)

	Notes	Reporting period		Previous period	
		for the current quarter	for the current quarter cumulative since the year	for the current quarter	for the current quarter cumulative since the year
<b>Interest income</b>					
Loans to customers		646,097	1,772,841	535,087	1,464,703
Due from credit institutions		31,927	71,253	2,939	18,740
Investment securities at fair value through profit and losses		819	842	-	-
Investment securities available for sale		542,213	1,356,129	324,085	836,706
Investments held to maturity		138,902	837,633	-	-
		<b>1,359,958</b>	<b>4,038,698</b>	<b>862,111</b>	<b>2,320,149</b>
<b>Interest expense</b>					
Due to the National Bank of Ukraine		(21,656)	(127,748)	(74,723)	(311,583)
Due to customers		(1,137,840)	(3,275,276)	(521,167)	(1,305,510)
Due to credit institutions		(12,229)	(132,673)	(53,197)	(182,650)
		<b>(1,171,725)</b>	<b>(3,535,697)</b>	<b>(649,087)</b>	<b>(1,799,743)</b>
<b>Net interest income, before allowance for impairment of loans</b>					
		<b>188,233</b>	<b>503,001</b>	<b>213,024</b>	<b>520,406</b>
Change in allowance for impairment of loans	8, 10	(17,642)	733,669	76,668	15,714
<b>Net interest income, after allowance for impairment of loans</b>					
		<b>170,591</b>	<b>1,236,670</b>	<b>289,692</b>	<b>536,120</b>
Losses on initial recognition of financial assets					
		(2,488)	(808,022)	-	-
Net fee and commission income	26	92,285	235,961	57,458	156,509
Net (losses) on investment securities at fair value through profit and losses		(3,881)	(3,765)	-	-
Net (losses)/gains on investment securities available for sale	27	(2,913)	5,673	21,765	41,111
Net (losses)/gains on foreign exchange operations	28	(5,684)	156,233	(475,898)	(604,958)
Result on operations with derivative financial instruments		71,320	277,887	494,410	172,310
Net gains on investment property		2,089	6,331	1,405	2,969
Other income	29	9,712	90,210	8,207	18,150
		<b>160,440</b>	<b>(39,492)</b>	<b>107,347</b>	<b>(213,909)</b>
<b>Non-interest income</b>					
Staff costs	30	(133,535)	(405,678)	(95,588)	(280,917)
Other operating expense	30	(143,448)	(425,388)	(104,226)	(256,222)
Depreciation and amortization	15	(31,078)	(72,416)	(14,330)	(41,713)
Change in allowance for impairment of assets and other provisions	18	21,964	(142,435)	464	(26,121)
		<b>(286,097)</b>	<b>(1,045,917)</b>	<b>(213,680)</b>	<b>(604,973)</b>
<b>Non-interest expense</b>					
		<b>44,934</b>	<b>151,261</b>	<b>183,359</b>	<b>(282,762)</b>
<b>Profit/(loss) before income tax</b>					
Income tax (expense)/benefit	17	(19,604)	(34,632)	(1,226)	10,776
		<b>25,330</b>	<b>116,629</b>	<b>182,133</b>	<b>(271,986)</b>

Notes on the pages from 6 to 53 form an integral part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME (continued)**

	<i>Reporting period</i>		<i>Previous period</i>	
	<i>for the current quarter</i>	<i>for the current quarter cumulative since the year</i>	<i>for the current quarter</i>	<i>for the current quarter cumulative since the year</i>
<b>Net profit/(loss)</b>	<b>25,330</b>	<b>116,629</b>	<b>182,133</b>	<b>(271,986)</b>
<b>Other comprehensive income</b>				
<b>Items that may be reclassified subsequently to profit or loss</b>				
Unrealized profits/ (losses) on investment securities available for sale	412,439	302,330	468,152	(123,049)
Realized profits on investment securities available for sale	15,396	48,981	11,991	11,991
Income tax related to investment securities available for sale	-	-	(2,633)	(51,767)
<b>Other comprehensive income/(loss), after income tax</b>	<b>427,835</b>	<b>351,311</b>	<b>477,510</b>	<b>(162,825)</b>
<b>Total comprehensive income/(loss)</b>	<b>453,165</b>	<b>467,940</b>	<b>659,643</b>	<b>(434,811)</b>
Weighted average number of shares (in thousands)	-	13,837,000	633,000	13,837,000
Basic and diluted net earnings per share (in UAH)	-	0.01	0.01	(0,02)

Authorized and signed on behalf of the Bank's management by:

Andrii Kravets

Acting Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

24 October 2016

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**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**

**for the 9 months ended 30 September 2016**

(in Hryvnias and in thousands)

	Notes	Share capital	Acquired title of ownership to shares	Result from transactions with share-holders	Additional paid-in capital	Other reserves	Accumulated deficit	Total equity
<b>As at 31 December 2014</b>		10,000,000	(518,439)	-	135,942	(45,692)	(8,200,113)	1,371,698
Total comprehensive loss for the 9 months of 2015		-	-	-	-	(162,825)	(271,986)	(434,811)
Increase in share capital		3,837,000	-	-	-	-	-	3,837,000
Results from the transfer of assets and assumption of obligations of PJSC "JSCB "KYIV"	24	-	-	(639,244)	-	-	-	(639,244)
Results of initial recognition the difference between the nominal and carrying values of USBs received as share capital contribution		-	-	(475,268)	-	-	-	(475,268)
Other revaluation related adjustments		-	-	-	-	3,402	(3,402)	-
<b>As at 30 September 2015</b>		<b>13,837,000</b>	<b>(518,439)</b>	<b>(1,114,512)</b>	<b>135,942</b>	<b>(205,115)</b>	<b>(8,475,501)</b>	<b>3,659,375</b>
<b>As at 31 December 2015</b>		<b>13,837,000</b>	<b>(518,439)</b>	<b>(1,102,304)</b>	<b>135,942</b>	<b>(122,850)</b>	<b>(7,936,703)</b>	<b>4,292,646</b>
Total comprehensive income for the 9 months of 2016	23	-	-	-	-	351,311	116,629	467,940
<b>As at 30 September 2016</b>		<b>13,837,000</b>	<b>(518,439)</b>	<b>(1,102,304)</b>	<b>135,942</b>	<b>228,461</b>	<b>(7,820,074)</b>	<b>4,760,586</b>

Authorized and signed on behalf of the Bank's management by:

Andrii Kravets



Acting Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

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**INTERIM CONDENSED STATEMENT OF CASH FLOWS (The direct method)**

**for the 9 months ended 30 September 2016**

(in Hryvnias and in thousands)

	Notes	30 September 2016	30 September 2015
<b>Cash flows from operating activities</b>			
Interest received		3,850,080	1,994,260
Interest paid		(3,438,271)	(1,730,308)
Fees and commissions received		302,809	208,607
Fees and commissions paid		(72,946)	(52,511)
Net result on foreign exchange operations (realized)		932	(181,164)
Result on operations with derivative financial instruments		570,150	987,792
Other income received		70,150	15,797
Staff costs		(395,429)	(275,382)
Other operating expense		(437,546)	(223,513)
Trading result on investments in securities		2,391	3,563
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>452,320</b>	<b>747,141</b>
<i>Net decrease/(increase) in operating assets</i>			
Precious metals		15,786	11,377
Due from credit institutions		(2,478,231)	326,854
Loans to customers		(3,086,123)	(4,297,960)
Other assets		(124,209)	(63,832)
<i>Net (decrease)/increase in operating liabilities</i>			
Due to credit institutions		(3,428,106)	4,702,241
Due to customers		21,417,076	3,123,520
Other liabilities		(118,243)	(599)
Income tax paid		-	(5,470)
<b>Net cash generated from operating activities</b>		<b>12,650,270</b>	<b>4,543,272</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities and investments held to maturity		(184,935,845)	(35,232,680)
Proceeds on sale and repayment of investment securities and investments held to maturity		175,596,266	35,461,259
Acquisition of property and equipment		(266,271)	(10,803)
Proceeds on disposal of property and equipment		1,637	2,369
Proceeds on investment property		6,331	2,969
Proceeds on disposal of assets held for sale		100,249	2,599
<b>Net cash generated (used in)/from investing activities</b>		<b>(9,497,633)</b>	<b>225,713</b>
<b>Cash flows from financing activities</b>			
(Repayment) on borrowed funds from the National Bank of Ukraine		(3,706,600)	(1,501,022)
<b>Net cash generated from financing activities</b>		<b>(3,706,600)</b>	<b>(1,501,022)</b>
Effect of exchange rate changes on cash and cash equivalents		14,852	57,124
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(539,111)</b>	<b>3,325,087</b>
<b>Cash and cash equivalents, at the beginning of the period</b>	7	<b>3,969,997</b>	<b>2,313,610</b>
<b>Cash and cash equivalents, at the end of the period</b>	7	<b>3,430,886</b>	<b>5,638,697</b>

Authorized and signed on behalf of the Bank's management by:

Andrii Kravets

Acting Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

24 October 2016

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(in Hryvnias and in thousands, unless otherwise indicated)

## 1. General information

### Organization structure and operations

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" (the "Bank") is a legal successor of CJSC "Intergazbank" and CJSC "Khadzhibeibank" registered by the National Bank of Ukraine on 21 July 1993 (Registration # 183). The Bank is a legal successor of JSCB "Narodnyi Bank" pursuant to the agreement dated 15 January 2002 on the re-organization terms and conditions of JSCB "Narodnyi Bank" through its combination with OJSC JSB "Ukrigasbank" as a branch. In September 2009, the Bank changed its name from Open Joint-Stock Company Joint Stock Bank "Ukrigasbank" to PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" in accordance with the requirements of the Ukrainian legislation and the decision of the General Shareholders' Meeting dated 29 May 2009.

The Bank is engaged in accepting deposits from individuals and legal entities and extending loans, transferring payments in Ukraine and abroad, exchanging currencies and providing other banking services to its corporate and retail customers. The Bank's Head Office is located in Kyiv. As at 30 September 2016, the Bank's network consisted of 245 registered outlets (including 228 operating outlets) (2015: 245 outlets, including 179 operating outlets) in different regions of Ukraine. The Bank's registered address is as follows: Yerevanska St., 1, Kyiv, Ukraine. The Bank's Head Office is located at: Bohdana Khmelnytskoho St., 16/22, Kyiv, Ukraine.

As at 30 September 2016 and 31 December 2015 the Bank's issued shares were held by the following shareholders:

<b>Shareholder</b>	<b>30 September 2016, %</b>	<b>31 December 2015, %</b>
The Ministry of Finance of Ukraine	94.94	94.94
LLC "Investanalityk"	0.40	0.40
LLC "Financial Investment Alliance"	0.33	0.30
Other	4.33	4.36
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

As at 30 September 2016 and 31 December 2015, the Bank's ultimate controlling party was the Ukrainian government represented by the Ministry of Finance of Ukraine.

These financial statements were authorized for issue and signed by the Bank's management on 24 October 2016.

## 2. Operating environment and going concern

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

In 2016, Ukrainian political and economic situation continued to deteriorate significantly. The political and social unrest, which began in late 2013 and developed in 2014, combined with regional tensions led to the secession of the Autonomous Republic of Crimea to the Russian Federation, full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations of Ukraine with the Russian Federation. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings.

The known and estimable effects of the above events on the financial position and performance of the Bank in the reporting period have been taken into account in preparing these financial statements. Specific effects of the secession of Crimea and the ongoing conflict in the eastern regions of the country are disclosed further in Notes of this financial statement.

The Government has committed to direct its policy towards the association with the European Union, to implement a set of reforms aiming at the removal of the existing imbalances in the economy, public finance and public governance, and the improvement of the investment climate.

Stabilisation of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.



*(in Hryvnias and in thousands, unless otherwise indicated)*

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

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

#### **Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

#### **Basis of measurement**

These financial statements have been prepared on the historical cost basis, except for buildings and certain financial instruments that are measured at revalued amount or fair value at the end of year, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurement is categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- ▶ level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- ▶ level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- ▶ level 3 inputs are unobservable inputs for the asset or liability.

(in Hryvnias and in thousands, unless otherwise indicated)

#### Reclassification

Since 1 January 2016, the Bank changed its approach in presentation of losses on allowance for impairment. Effects of changes in amounts in the 9 months of 2015 were as follows:

	<i>As previously reported</i>	<i>Adjustment</i>	<i>As changed</i>
Change in allowance for impairment of loans	(1,125,348)	1,141,062	15,714
Net gains on foreign exchange operations	554,937	(1,159,895)	(604,958)
Change in allowance for impairment of assets and other provisions	(44,954)	18,833	(26,121)

#### Going concern

These financial statements have been prepared on the assumption that the Bank is able to continue its activities on an ongoing basis in the near future. The Management and shareholders have the intention to further engage in economic activities of the Bank in Ukraine. Management believes that the use of assumptions about the Bank's ability to continue its operations on an ongoing basis is appropriate, given the appropriate level of adequacy of its capital commitment of shareholders to support the Bank and based on historical experience shows that short-term obligations will be refinanced in the normal course of business.

#### Functional and presentation currency

These financial statements are presented in UAH and in thousands, unless otherwise indicated. The functional currency of these financial statements is Hryvnia ("UAH").

## 4. Summary of significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

#### Foreign currency translation

Transactions in foreign currencies are initially recognized in the Bank's functional currency at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates effective at the respective dates. The foreign currency gains or losses are recognized in the statement of profit or loss and other comprehensive income as a net result of foreign exchange operations. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into UAH at the exchange rates at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the transaction dates.

The differences between a contractual exchange rate on a specific transaction in a foreign currency and the official exchange rate established by the National Bank of Ukraine at the date of such a transaction are also included in the result of dealings in foreign currencies.

The official exchange rates of UAH to foreign currencies as established by the National Bank of Ukraine at the respective dates and used in the preparation of these financial statements are as follows:

<i>Currency</i>	<i>30 September 2016</i>	<i>31 December 2015</i>
UAH/USD	25.9119	24.0007
UAH/EUR	29.0757	26.2231

#### Financial assets

##### *Initial recognition*

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition and subsequently may reclassify financial assets in certain cases as described below.

*(in Hryvnias and in thousands, unless otherwise indicated)*

#### *Date of recognition*

All regular way purchases and sales of financial assets are recognized on the date of operation, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

#### *Financial assets available for sale*

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale and not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables. Upon initial recognition, available for sale financial assets are measured at fair value, with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. Interest calculated using the effective interest rate method is recognized through profit or loss.

#### *Investments held to maturity*

Non-derivative financial assets with fixed payments, or payments that can be identified, and with fixed maturity are classified as held to maturity if the Bank intends and is able to hold them to maturity. Investments intended to be held for an indefinite period of time are not included in this category. Investments held to maturity are subsequently measured at amortized cost. Income and expenses are recognized in the statement of profit or loss through impaired investments as well as amortization.

#### *Measurement*

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

- ▶ loans and receivables which are measured at amortized cost using the effective interest rate method;
- ▶ held to maturity investments that are measured at amortized cost using the effective interest rate method;
- ▶ investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and which are measured at cost.

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

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, less principal repayments, plus or minus the cumulative amortization of any difference between the initial amount recognized and the maturity amount using the effective interest rate method, less any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

*(in Hryvnias and in thousands, unless otherwise indicated)*

#### *Gains and losses on subsequent measurement*

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

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

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

#### *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 to realize the asset and settle the liability simultaneously.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted cash balances with the National Bank of Ukraine, obligatory deposits with the National Bank of Ukraine, due from credit institutions with maturities up to 90 days from the date of origination that are free from contractual encumbrances, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of fair value changes and are used by the Bank to manage its short-term commitments.

### **Due from credit institutions**

In the normal course of business, the Bank grants loans or maintains deposits for various periods of time with other credit institutions. Due from credit institutions is initially measured at fair value. Due from credit institutions with fixed maturities is measured at amortized cost using the effective interest rate method. Due from credit institutions are carried net of any allowance for impairment losses.

### **Precious metals**

Precious metals are stated at the lower of net realizable value or cost. The net realizable value of precious metals is estimated based on quoted market prices.

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

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

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains, less losses from trading securities, in profit and loss. The obligation to return them is recorded at fair value as a trading liability.

*(in Hryvnias and in thousands, unless otherwise indicated)*

### **Derivative financial instruments**

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps in the foreign exchange market primarily with Ukrainian banks. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in profit or loss. The Bank assesses and calculates the fair value of its forwards and recognizes all significant changes in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

#### *Embedded derivatives*

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value through profit or loss.

### **Borrowed funds**

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation, other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of Ukraine, due to credit institutions, due to customers, debt securities issued, and subordinated debt. Upon initial recognition, borrowed funds are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss when the borrowed funds are derecognized, as well as through the amortization process.

If the Bank purchases its own obligations, they are removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is recognized in profit and loss.

### **Leases**

#### *Operating leases – the Bank as a lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by a lessor are classified as operating leases. Rental payments under an operating lease are recognized as expense on a straight-line basis over the lease term and included in other operating expense.

#### *Operating leases – the Bank as a lessor*

The Bank presents assets held for operating leases in the statement of financial position according to the nature of the respective asset. Rental income from operating leases is recognized in profit and loss on a straight-line basis over the lease term as either net gains/losses from investment property for buildings and premises or other income. The total cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

### **Impairment of financial assets**

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Objective evidence of impairment may include indications that a borrower, or a group of borrowers, is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, as well as developments in technological, market, economic, and legal environment of a business entity.

*(in Hryvnias and in thousands, unless otherwise indicated)*

*Due from credit institutions and loans to customers*

For due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (except for future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account, and the impairment loss is recognized in profit and loss. Interest income continues to be accrued on the reduced carrying amount based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of their future recovery, and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced through the use of the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a floating interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not a foreclosure is probable.

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of the Bank's internal credit rating system that considers credit risk characteristics, such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows from a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*Loans to customers*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or if there are any known difficulties in the cash flows of counterparties, credit rating downgrades or breach of the original terms of the contract. The Bank assesses impairment by focusing on two areas: allowances for individually significant loans and allowances for loans assessed on a collective basis.

*Allowances for individually significant loans*

The Bank determines the allowance appropriate for each individually significant loan on an individual basis. Factors considered when determining the allowance include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows and other factors. Impairment losses are assessed as at each reporting date.

*Allowances for loans assessed on a collective basis*

Allowances for impairment losses are assessed collectively for loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are assessed as at each reporting date for each loan portfolio.

*(in Hryvnias and in thousands, unless otherwise indicated)*

A collective assessment takes into account impairment losses that are likely to occur for a loan portfolio even though there is not yet objective evidence of the individual impairment indicators. Impairment losses are assessed by taking into consideration the following information: historical losses of the loan portfolio, current economic conditions, existence of a certain period between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

#### *Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. Restructuring, i.e. change in significant terms and conditions under the original agreement by entering into additional arrangements with a debtor due to its financial difficulties (as determined by the Bank) and the need to create favorable conditions for it to meet its obligations under the asset (change in interest rate; cancellation, wholly or in part, of financial sanctions (penalties, fines, forfeits) accrued for untimely payments of the principal and interest amounts and failed to be repaid by the debtor; change in the repayment schedule (terms and amounts of the principal, interest/fees); change in the fee amount).

Such renegotiated loans are accounted for as follows:

- ▶ if the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized;
- ▶ if the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows, taking into account the collateral and the carrying amount before restructuring, is included in the provision charges for the period.

The Bank's management consistently reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

#### *Write off of loans*

Loans are written off against the allowance for impairment losses based on the decision of the Management Board. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as other income in the statement of profit or loss and other comprehensive income in the period of recovery.

#### *Investment securities available for sale*

The Bank assesses at each reporting date whether there is an objective evidence that an investment or a group of investments available for sale are impaired.

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

When sold, gain/(loss) earlier recognized in equity will be recognized in the statement of profit or loss and other comprehensive income. A result on the sale of investments available for sale is recognized in the statement of profit or loss and other comprehensive income on disposal and is the difference between the sales price and carrying amounts at the transaction date.

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

*(in Hryvnias and in thousands, unless otherwise indicated)*

#### *Non-financial assets*

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

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

### **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 derecognized where:

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

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

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, 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 recognized in profit or loss.

### **Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and other forms of credit insurance. Financial guarantees are initially recognized in the financial statements at fair value, in 'Other Liabilities' line, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to profit or loss. The premium received is recognized in profit and loss on a straight-line basis over the life of the guarantee.



*(in Hryvnias and in thousands, unless otherwise indicated)*

## **Taxation**

The current income tax charge is calculated in accordance with the Ukrainian tax regulations.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. In consideration of the changes in tax legislation of Ukraine, which entered into force since 1 January 2015, the current Bank's profit in the reporting year is determined by adjusting the financial result presented in the financial statements in accordance with International Financial Reporting Standards, the differences arising under the clauses of the tax code of Ukraine. The Bank's current tax expense is calculated using tax rates that have been enacted during such reporting periods (years).

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the balance sheet liability method. Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred tax assets and liabilities in the current year are calculated in consideration of changes in tax legislation, which came into force on 1 January 2015.

A deferred tax asset is recorded only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that are set tax legislation of Ukraine the appropriate tax reporting periods.

Also in Ukraine tax regulations assume other taxes and duties. These taxes are included as a component of administrative and operating expense.

## **Investment property**

Investment properties, which comprise office premises are properties, held to earn rentals from long-term leases or for capital appreciation and are not occupied by the Bank. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at revalued amounts, which are their fair values at the date of revaluation and are determined based on the market evidence as a result of valuations performed by independent appraisers, less any subsequently accumulated impairment losses. Revaluation is performed with sufficient regularity so that the carrying amounts did not differ significantly from those arrived at using fair value as at the reporting date. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

## **Property and equipment**

Property and equipment, other than buildings and land plots, are carried at their historical cost, less any accumulated depreciation and recognized impairment losses, if any.

Upon the initial recognition at cost, buildings and land plots are carried at their revalued amounts which are the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuation is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the property and equipment revaluation reserve which is included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit and loss. A revaluation deficit is recognized in profit and loss, except that a deficit directly offsetting a previous surplus on the same asset which is directly offset against the surplus in the property and equipment revaluation reserve.

In addition, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

*(in Hryvnias and in thousands, unless otherwise indicated)*

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Furniture and equipment	3-10
Leasehold improvements	Over the relevant lease period
Motor vehicles	5

Residual value, useful lives, and depreciation methods are reviewed and adjusted as appropriate, at each reporting date.

Costs related to repairs and renewals are charged when incurred and included in other operating and administrative expense, unless they qualify for capitalization.

### **Intangible assets**

Intangible assets include computer software. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Upon initial recognition, intangible assets are carried at cost, less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

An item of property and equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on the disposal of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income.

### **Assets held for sale**

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets held for sale are measured at the lower of their carrying amount and fair value, less costs to sell. If the fair value, less costs to sell, of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the statement of profit or loss and other comprehensive income as loss from assets held for sale. Any subsequent increase in an asset's fair value, less costs to sell, is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

### **Provisions**

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

*(in Hryvnias and in thousands, unless otherwise indicated)*

### **Retirement and other benefit obligations**

The Bank has pension arrangements to the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments, with such expense charged in the period the related salaries are earned. Also, the Bank has voluntary contribution pension arrangements with a non-government pension fund, which requires current contributions by the employer calculated as a percentage of employees' payments to this pension fund, with such expense charged in the reporting period the related salaries are earned. The Bank has no additional post-retirement benefits or significant other compensated benefits requiring accrual.

### **Share capital and other reserves**

Contributions to share capital made before 1 January 2001 are recognized at their cost restated for hyperinflation. Contributions to share capital made after 1 January 2001 are recognized at their historical cost. Ordinary and preference shares are carried in equity.

Acquired title of ownership to shares of the Bank's own issue is deducted directly from equity. A gain or loss arising from purchase, sale, issue or cancellation of the Bank's treasury shares is not included in profit or loss.

The surplus of consideration received over the nominal value of shares issued is reflected as additional paid-in capital.

Other reserves included in equity (other comprehensive income) in the statement of financial position of the Bank comprise a revaluation reserve for investments available for sale and a property and equipment revaluation reserve, including a revaluation reserve of land and buildings.

Profit or loss arising from transactions with shareholders recognized in equity as "Result from transactions with shareholders".

### **Reserve fund**

The Bank creates a reserve fund to cover unforeseen losses on all items of assets and off-balance liabilities. The amount of charges to the reserve fund should be not less than 5 percent of the Bank's profit until it reaches 25 percent of the Bank's regulatory capital.

If, as a result of the Bank's activities, the amount of its regulatory capital decreases to the amount that is lower than its share capital, then annual charges to the reserve fund should be not less than 10 percent of the Bank's net profit until it reaches 35 percent of the Bank's share capital.

### **Segment reporting**

The Bank's segment reporting is based on the following operating segments: individuals (retail banking), legal entities (corporate banking), clients of small and medium-sized enterprises, financial institutions, asset management, and other.

### **Contingencies**

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

### **Revenue and expense recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank, and the revenue can be reliably measured.

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) 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 (where appropriate) a shorter period, to the net carrying amount of the financial asset or financial liability.

*(in Hryvnias and in thousands, unless otherwise indicated)*

In calculating the effective interest rate, the Bank considers all paid and/or received fees and duties and transaction costs that form an integral part of income/expense on the financial instrument, in particular:

- a) financial instrument origination fees received/paid by the Bank and related to origination or acquisition of such a financial instrument;
- b) fees received/paid by the Bank on lending arrangements in the course of loan origination or acquisition as consideration for participation in the financial instrument's acquisition if it is probable that a loan commitment will lead to a specific lending arrangement;
- c) fees received/paid by the Bank when issuing debt securities that are accounted for at amortized cost.

Revenue on debt financial instruments is carried using the effective interest rate method, except for financial assets at fair value through profit or loss.

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

Interest received from the assets measured at fair value is classified as interest income.

Fee and commission income and expense (hereinafter, "fees") are income and expense on the services rendered/received the amount of which is calculated pro rata to the amount of an asset or liability or is fixed.

Recognition of fee and commission income and expense – loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement or loan tranche, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement or loan tranche, the loan commitment fees are recognized in the statement of profit or loss and other comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan or loan tranche, the loan commitment fee is recognized in the statement of profit or loss and other comprehensive income on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Other revenue is recognized in the statement of profit or loss and other comprehensive income in the period the relevant transaction is completed.

## **Application of new and revised International Financial Reporting Standards ("IFRS")**

### ***Adoption of new and revised IFRS***

In 2016, the following new standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

#### ***IFRS 9 "Financial Instruments"***

Classification and measurement of financial assets depends on the cash flows under agreements on assets and business model, according to which the organization maintains an asset.

Embedded derivatives are no longer separated from the main contract to a financial asset.

The new impairment model based on expected losses on the loan and applies to debt instruments measured at amortized cost or fair value through other comprehensive income on the lease receivable, assets under contract and specific written commitments to extend loans and financial guarantees.

Creating a reserve or a 12-month expected credit losses, or under the expected credit losses over the course mandatory for all risks covered by IFRS 9 concerning impairment.

Hedge accounting can display more detailed risk management; with more hedging instruments and hedged items meet its requirements.

No need to make a retrospective assessment of hedge effectiveness, and are now promising test is based on the principle of "economic relations".

Revised the accounting for the time value of options, forward points and monetary base element spread hedging instruments may reduce volatility of profit or loss.

Amendments to IFRS 7 "Financial Instruments: Disclosures" are making significant additional disclosure requirements in the application of IFRS 9.

*(in Hryvnias and in thousands, unless otherwise indicated)*

#### *IFRS 16 "Leases"*

The new standard represents a single model identification leases and order them into account in the financial statements as lessees and lessors. It replaces IAS 17 "Leases" and related guidance on its interpretation.

IFRS 16 uses a control model to identify Leases, holding the distinction between leases and service contracts based on the presence or absence of the identified assets controlled by the client.

Introduced significant changes in the accounting of the lessor, with the elimination of differences between operating and finance leases and recognition of assets and liabilities in respect of all lease contracts (except for a limited number of cases, short-term leases and lease assets with a low cost)

Thus, the standard contains significant changes to accounting requirements of the lessor.

Organizations need to consider the impact of the changes that have been made to this standard, for example, information systems and internal control system.

The standard is effective for periods beginning January 1, 2019 or later, while earlier application is permitted for organizations that also apply IFRS 15 "Revenue from Contracts with Customers"

#### *Amendments to IAS 7 "Statement of Cash Flows"*

The amendments are part of the initiative of International Accounting Standards Board to disclosure and introduces additional that concerning disclosure requirements aimed at resolving the concerns of investors about the failure of the financial statements currently help investors understand the cash flow in the organization, particularly with regard to financial management.

These amendments require disclosure of information that enables users of financial statements to evaluate changes in liabilities caused by financial activities. The amendments do not give a definition of financial activities, but clarifies that financial activities based on existing definitions presented in IAS 7.

Despite the lack of specific requirements to order compliance with the new changes, the amendments include examples of how the organization can achieve the objective of the amendments.

The amendments will apply for annual periods beginning on or after 1 January 2017, applied prospectively and allow the application to that date.

Organizations are not required to provide comparative information for prior periods.

#### *Amendments to IAS 12 "Income Taxes"*

In amendments explained that on the basis of unrealized losses on debt instruments, estimated at fair value in the financial statements but for tax purposes for the estimated cost, there may be temporary differences are deductible.

In amendments also clarified that the assessment of possible future taxable income is not limited to the carrying amount of the asset, and that the comparison with temporary differences that taxable profit future taxable income does not include the tax deductions associated with the reversal of these temporary differences.

The amendments apply retrospectively and are effective from January 1, 2017 with earlier application permitted

#### *Amendments to IFRS 15 "Revenue from Contracts with Customers"*

The amendments contain clarifications concerning the identification of responsibilities for execution, a comparison of remuneration of the owner and the agent, and on the application of the licensing manual.

The amendments provide additional practical techniques for organizations transitioning to the application of IFRS 15 in respect of (i) changes in the agreement that had been made prior to the beginning of the earliest period presented; and (ii) contracts that have been executed at the beginning of the earliest period presented.

The amendments are effective for annual periods beginning January 1, 2018 or later, with earlier application permitted.

## **5. Significant accounting judgments and estimates**

The preparation of financial statements in compliance with IFRS requires that Bank's management make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is as follows.

*(in Hryvnias and in thousands, unless otherwise indicated)*

## **Key estimates in applying accounting policies**

### *Fair value of financial instruments*

Financial instruments available for sale and derivative financial instruments are stated at fair value.

The Bank considers that the accounting estimates and assumptions related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) they are highly susceptible to change from period to period because they require that management make assumptions about interest rates, volatility, exchange rates, credit rating of a counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognition of a change in valuations would have on the assets reported in the statement of financial position as well as its income/(expense) could be material.

Had management used different assumptions regarding interest rates, volatility, exchange rates, credit rating of a counterparty, offer date and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted in a material impact on the Bank's net profit reported in the financial statements.

### *Allowance for impairment losses on loans and receivables*

Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics.

Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing and could differ from management's estimates.

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

Note 10 describes sensitivity of the carrying amounts of loans and advances to changes in estimates. Should actual repayments be less than management's estimates, the Bank would be required to record additional impairment expense.

### *Deferred tax assets*

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized in future reporting periods. The estimation of such a probability is based on management's forecasts regarding future taxable profit and is complemented by the Bank's management judgments.

### *Fair value of buildings and land plots*

As discussed in Note 4, buildings and land plots are carried at revalued amount, less any subsequent accumulated depreciation and impairment losses. The method used to estimate fair value is the market approach. The market approach is based on an analysis of the results of comparable sales of similar buildings and land plots. The estimation of the fair value of buildings requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors. Management engages external independent appraisers to estimate the fair value of property. Note 13 describes key assumptions used in estimating the fair value of buildings and land plots.

### *Valuation of assets held for sale*

As discussed in Note 4, assets held for sale are measured at a lower of their carrying amount and fair value, less costs to sell. The method used to estimate fair value is the market approach. The market approach is based on an analysis of the results of comparable sales of similar items. The estimation of the fair value of items requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors. Management engages external independent appraisers to estimate the fair value of such property.

(in Hryvnias and in thousands, unless otherwise indicated)

The Bank's accounting policies allow offsetting assets and liabilities (i.e. loans due from and deposits due to the same banks) only when there is legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Although settlement of loans and deposits is typically done on the same day, loans due from and deposits due to the same banks are settled by receiving and paying separate amounts, thus, exposing the Bank to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. These risk exposures may be significant even though relatively brief. Management believes that these transactions are in substance foreign currency exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivatives (Note 4). Accordingly, the net fair value of foreign currency exchange swaps is recognized as an asset when the fair value is positive and as a liability when the fair value is negative. The gross amount of amounts receivable/payable on settlement (having the legal form of loans due from and deposits due to the same banks) are offset and not recognized in the statement of financial position. Note 28 summarizes information about maximum exposure to credit risk arising from these derivative instruments (i.e. gross amount of receivable upon settlement of loans due from banks) and information about exposure to liquidity risk (i.e. gross amount of payable upon settlement of deposits due to banks).

## 6. Segment information

For management purposes, the Bank has defined five operating segments based on its products and services, which are as follows:

Legal entities (corporate banking)	Mainly granting purpose loans, servicing deposits and current accounts for corporate and institutional customers
Clients of small and medium-sized enterprises (SMEs)	Mainly granting purpose loans, servicing deposits and current accounts for clients which business satisfies certain criteria and limits
Individuals (retail banking)	Mainly servicing individual customers' deposits and granting consumer loans, overdrafts, handling credit cards and funds transfer facilities
Financial institutions	Mainly placing funds with and attracting funds from other financial institutions
Asset management and other	Finance and other central functions

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance measurement. Segment performance, as explained in the table below, is measured differently from profit or loss in the financial statements. Income taxes are managed on a central basis and are not allocated to operating segments.

The segment information below is presented on the basis used by the Bank's chief operating decision maker to evaluate performance, in accordance with IFRS 8 *Operating Segments*. Management reviews discrete financial information for each of its segments, including estimates of operating results, assets, and liabilities. The segments are managed primarily on the basis of their performance, without analyzing intersegment funding and income and expense arising between them.

During the nine months of 2016, the Bank received revenue from the loan transactions with a single client in the amount of UAH 407,280 thousand. During the nine months of 2015, the Bank received revenue from the loan transactions with a single client in the amount of UAH 289,565 thousand, which is more than 10% of the Bank's total income.

(in Hryvnias and in thousands, unless otherwise indicated)

The following tables summarize income and profit and certain other assets and liabilities information regarding the Bank's operating segments.

<b>30 September 2016</b>	<b>Legal entities (corporate banking)</b>	<b>SMEs</b>	<b>Individuals (retail banking)</b>	<b>Financial institutions</b>	<b>Asset management and other</b>	<b>Total</b>
<b>Income</b>						
Interest income	1,518,299	68,814	185,728	71,253	2,194,604	<b>4,038,698</b>
Fee and commission income	79,194	47,114	163,191	5,334	14,074	<b>308,907</b>
Change in allowance for impairment of loans	655,838	259,265	(179,199)	(2,235)	-	<b>733,669</b>
Net gains on investments securities available for sale	-	-	-	-	5,673	<b>5,673</b>
Net gains on foreign exchange operations	-	-	4,685	-	151,548	<b>156,233</b>
Result on operations with derivative financial instruments	-	-	-	-	277,887	<b>277,887</b>
Net gains on investment property	-	-	-	-	6,331	<b>6,331</b>
Other income	21,770	14,597	25,587	-	28,256	<b>90,210</b>
<b>Total incomes</b>	<b>2,275,101</b>	<b>389,790</b>	<b>199,992</b>	<b>74,352</b>	<b>2,678,373</b>	<b>5,617,608</b>
<b>Expense</b>						
Interest expense	(2,145,929)	(85,916)	(1,045,213)	(258,639)	-	<b>(3,535,697)</b>
Fee and commission expense	(2)	-	(59,806)	(13,138)	-	<b>(72,946)</b>
Net (losses) on investment securities at fair value through profit and losses	-	-	-	-	(3,765)	<b>(3,765)</b>
Losses on initial recognition of financial assets	(796,246)	-	(11,776)	-	-	<b>(808,022)</b>
Staff costs	(54,283)	(80,708)	(218,971)	(3,486)	(48,230)	<b>(405,678)</b>
Depreciation and amortization	(7,046)	(13,872)	(42,036)	(626)	(8,836)	<b>(72,416)</b>
Change in allowance for impairment of assets and other provisions	(107,041)	(3,345)	(9,612)	88	(22,525)	<b>(142,435)</b>
Other operating expense	(130,569)	(34,391)	(226,571)	(2,110)	(31,747)	<b>(425,388)</b>
<b>Total expenses</b>	<b>(3,241,116)</b>	<b>(218,232)</b>	<b>(1,613,985)</b>	<b>(277,911)</b>	<b>(115,103)</b>	<b>(5,466,347)</b>
<b>Segment results</b>	<b>(966,015)</b>	<b>171,558</b>	<b>(1,413,993)</b>	<b>(203,559)</b>	<b>2,563,270</b>	<b>151,261</b>
Income tax (loss)					(34,632)	<b>(34,632)</b>
<b>Net profit</b>					<b>2,528,638</b>	<b>116,629</b>
Segment assets	15,606,484	2,756,544	4,377,446	12,901,710	22,266,554	<b>57,908,738</b>
Segment liabilities	(36,613,047)	(12,277,586)	(1,654,667)	(2,566,140)	(36,712)	<b>(53,148,152)</b>
<b>Other segment information</b>						
Capital expenditures	21,662	50,133	174,830	2,419	24,376	<b>273,420</b>



(in Hryvnias and in thousands, unless otherwise indicated)

30 September 2015/ 31 December 2015	Legal entities (corporate banking)	SMEs	Individuals (retail banking)	Financial institutions	Asset management and other	Total
<b>Income</b>						
Interest income	1 236 396	31 752	196 555	18 740	836 706	<b>2 320 149</b>
Fee and commission income	29 049	6 143	94 152	63 171	16 505	<b>209 020</b>
Net profits on investments securities available for sale	-	-	-	-	41,111	<b>41,111</b>
Change in allowance for impairment of loans	(12,214)	(16,297)	(33,409)	77,634	-	<b>15,714</b>
Result on operations with derivative financial instruments	-	-	-	-	172,310	<b>172,310</b>
Net profit on investment property	-	-	-	-	2,969	<b>2,969</b>
Other income	3,739	1,405	12,120	709	177	<b>18,150</b>
<b>Total incomes</b>	<b>1,256,970</b>	<b>23,003</b>	<b>269,418</b>	<b>160,254</b>	<b>1,069,778</b>	<b>2,779,423</b>
<b>Expense</b>						
Interest expense	(538,466)	(22,391)	(744,659)	(494,227)	-	<b>(1,799,743)</b>
Fee and commission expense	(13,515)	-	(35,474)	(2,077)	(1,445)	<b>(52,511)</b>
Net (losses) on foreign exchange operations	-	-	-	-	(604,958)	<b>(604,958)</b>
Depreciation and amortization	(8,594)	(3,227)	(27,854)	(1,630)	(408)	<b>(27,383)</b>
Staff costs	(57,876)	(21,732)	(187,584)	(10,980)	(2,745)	<b>(280,917)</b>
Other operating expense	(48,797)	(15,248)	(177,050)	(13,201)	(1,926)	<b>(256,222)</b>
Change in allowance for impairment of assets and other provisions	(6,224)	(2,337)	(20,172)	2,907	(295)	<b>(26,121)</b>
<b>Total expenses</b>	<b>(673,472)</b>	<b>(64,935)</b>	<b>(1,192,793)</b>	<b>(519,208)</b>	<b>(611,777)</b>	<b>(3,062,185)</b>
<b>Segment results</b>	<b>583,498</b>	<b>(41,932)</b>	<b>(923,375)</b>	<b>(358,954)</b>	<b>458,001</b>	<b>(282,762)</b>
Income tax benefit					10,776	<b>10,776</b>
<b>Net profit/(loss)</b>					<b>468,777</b>	<b>(271,986)</b>
Segment assets	13,483,581	757,305	5,258,429	9,932,111	12,123,914	<b>41,555,340</b>
Segment liabilities	(15,753,249)	(965,927)	(11,180,672)	(9,194,067)	(168,779)	<b>(37,262,694)</b>
<b>Other segment information</b>						
Capital expenditures	2,240	841	7,208	266	248	<b>10,803</b>

## 7. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 September 2016	31 December 2015
Current accounts with the National Bank of Ukraine	2,675,229	3,088,722
Cash on hand	704,788	735,416
Current accounts with other credit institutions	50,869	143,842
Term deposits with credit institutions up to 90 days	-	2,017
<b>Cash and cash equivalents</b>	<b>3,430,886</b>	<b>3,969,997</b>

The current account with the National Bank of Ukraine represents the amounts deposited with the National Bank of Ukraine for daily settlements and other operations. There are no restrictions on access to the funds, placed in current accounts with the National Bank of Ukraine.

As at 30 September 2016 and 31 December 2015, the Bank complied with the requirements of the National Bank of Ukraine regarding obligatory reserve amounts.

The amount of the obligatory reserve should be maintained on the correspondent accounts with the National Bank of Ukraine as of 30 September 2016 was UAH 810,514 thousand (2015: UAH 509,850 thousand).

(in Hryvnias and in thousands, unless otherwise indicated)

## 8. Due from credit institutions

Due from credit institutions comprise:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Current accounts with other credit institutions	11,306,708	9,205,206
Reverse repurchase agreements	977,596	65,535
Term deposits with maturities over 90 days	752,401	784,798
Other amounts due from credit institutions	538,460	311,980
	<b>13,575,165</b>	<b>10,367,519</b>
Less: allowance for impairment	(746,548)	(744,441)
<b>Due from credit institutions</b>	<b>12,828,617</b>	<b>9,623,078</b>

As at 30 September 2016, the overdue due from credit institutions equals in the amount of UAH 734,148 thousand (2015: UAH 758,559 thousand).

As at 30 September 2016, due from credit institutions in the amount of UAH 10,195,120 thousand (or 75.10% of the total amount of due from credit institution) was placed with two bank, which is a significant concentration (2015: UAH 8,102,920 thousand with one banks, which was 78.16% of the total amount of due from credit institution).

Other amounts due from credit institutions include guarantee deposits placed mainly in respect of customer transactions, such as letters of credit, guarantees, discharge of obligations and transactions with travel checks and cards.

Movements in allowance for impairment of due from credit institutions were as follows:

	<b>9 months ended 30.09.2016</b>	<b>9 months ended 30.09.2015</b>
<b>1 January</b>	<b>744,441</b>	<b>796,917</b>
Charge /(reversal)	2,235	(77,634)
Amounts written off	(9,764)	-
Currency differences	9,636	31,416
<b>30 September</b>	<b>746,548</b>	<b>750,699</b>

## 9. Derivative financial instruments

The Bank has loans due from and deposits due to the same banks that are denominated in different currencies for the same period with the same or similar amounts. Cash flows under these instruments are similar to cash flows under foreign exchange swaps. The Bank enters into these instruments for risk hedging purposes; however, these instruments do not qualify for hedge accounting. Note 5 describes critical accounting judgments made by management in application of the Bank's accounting policies in respect of these instruments.

The Bank enters into currency exchange operations whereby it is obliged to supply one currency in exchange for another under pre-determined exchange rates. Such transactions are entered into with Ukrainian and international banks. Delivery under such contracts is usually within one month.

Notional amounts in the tables below represent the accounts receivable and payable:

	<b>30 September 2016</b>				<b>31 December 2015</b>			
	<b>Notional amount</b>		<b>Fair value</b>		<b>Notional amount</b>		<b>Fair value</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Foreign exchange contracts</b>								
Swaps/forwards	1,977,585	(1,992,718)	1,247	(16,380)	1,069,184	(1,068,346)	14,138	(13,300)
Spots	5,097,377	(5,102,030)	5,390	(10,043)	4,464,513	(4,488,542)	569	(24,598)
<b>Total derivative assets/ (liabilities)</b>			<b>6,637</b>	<b>(26,423)</b>			<b>14,707</b>	<b>(37,898)</b>

(in Hryvnias and in thousands, unless otherwise indicated)

## 10. Loans to customers

Loans to customers comprise:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Legal entities	18,574,350	16,114,702
Individuals	5,314,791	5,427,768
SMEs	769,581	463,183
<b>Gross loans to customers</b>	<b>24,658,722</b>	<b>22,005,653</b>
Less: allowance for impairment	(7,414,499)	(7,976,575)
<b>Loans to customers</b>	<b>17,244,223</b>	<b>14,029,078</b>

As at 30 September 2016, the total amount of restructured loans that would otherwise be overdue amounted to UAH 8,301,812 thousand (2015: UAH 8,281,327 thousand), including restructuring loans to two strategies state entities according to the laws of Ukraine in amount of UAH 6,417,845 thousand (2015: UAH 6,200,083 thousand).

During the nine months of 2016 loans to customers in the amount of UAH 231,969 thousand were repaid with assets held for sale (2015: UAH 80,831 thousand).

The loans granted to clients who are registered in the territories of Luhansk and Donetsk regions, not controlled by the Ukrainian authorities, and in the temporarily occupied territory of AR of Crimea include:

	<b>30 September 2016</b>	<b>31 December 2015</b>
The loans granted to clients that are registered in the Luhansk and Donetsk regions not controlled by Ukrainian authorities, and in the temporarily occupied territory of AR of Crimea	984,844	971,144
Allowance for impairment of loans to customers that are registered in the Luhansk and Donetsk regions not controlled by Ukrainian authorities, and in the temporarily occupied territory of AR of Crimea	(984,844)	(971,144)
<b>Total loans granted to clients who are registered in the Luhansk and Donetsk regions not controlled by Ukrainian authorities and in the temporarily occupied territory of AR of Crimea</b>	<b>-</b>	<b>-</b>

Analysis of the credit quality of loans to customers is disclosed in Note 31.

(in Hryvnias and in thousands, unless otherwise indicated)

### Allowance for impairment of loans to customers

Reconciliation of the allowance for impairment of loans to customers by categories is as follows:

	<i>Legal entities</i>	<i>SMEs</i>	<i>Individuals</i>	<i>Total</i>
<b>As at 1 January 2016</b>	<b>3,845,062</b>	<b>165,532</b>	<b>3,965,981</b>	<b>7,976,575</b>
(Reversal)	(655,838)	(259,265)	179,199	<b>(735,904)</b>
Amounts written off	(39,076)	(302)	(86,793)	<b>(126,171)</b>
Currency differences	36,608	257,069	6,322	<b>299,999</b>
<b>As at 30 September 2016</b>	<b>3,186,756</b>	<b>163,034</b>	<b>4,064,709</b>	<b>7,414,499</b>
<b>Total impaired loans, before allowance for impairment</b>	<b>3,661,790</b>	<b>189,247</b>	<b>4,142,088</b>	<b>7,993,125</b>
	<i>Legal entities</i>	<i>SMEs</i>	<i>Individuals</i>	<i>Total</i>
<b>As at 1 January 2015</b>	<b>4,149,958</b>	<b>151,577</b>	<b>3,013,784</b>	<b>7,315,319</b>
Charge/(reversal)	12,214	,16,297	33,409	<b>61,920</b>
Currency differences	436,651	19,287	653,708	<b>1,109,646</b>
<b>As at 30 September 2015</b>	<b>4,598,823</b>	<b>187,161</b>	<b>3,700,901</b>	<b>8,486,885</b>
<b>Total impaired loans, before allowance for impairment</b>	<b>6,902,449</b>	<b>310,534</b>	<b>5,229,369</b>	<b>12,442,352</b>

### Impaired loans

For the nine months of 2016, interest income accrued on the loans in respect of which impairment allowances have been recognized amounted to UAH 1,624,332 thousand (2015: UAH 1,790,354 thousand).

### Collateral

The following table summarizes total loan portfolio by types of collateral:

<i>Type of collateral</i>	<b>30 September 2016</b>				<b>31 December 2015</b>			
	<i>Loans to legal entities</i>	<i>SMEs</i>	<i>Loans to individuals</i>	<i>Total</i>	<i>Loans to legal entities</i>	<i>SMEs</i>	<i>Loans to individuals</i>	<i>Total</i>
<b>Impaired loans</b>								
Deposits	-	-	33	<b>33</b>	55	-	158	<b>213</b>
Real estate	500,882	42,301	668,981	<b>1,212,164</b>	2,465,264	48,928	758,044	<b>3,272,236</b>
Other assets	514,714	17,777	95,012	<b>627,503</b>	1,257,879	19,025	112,068	<b>1,388,972</b>
Unsecured	2,646,194	129,169	3,378,062	<b>6,153,425</b>	2,477,249	107,352	3,129,260	<b>5,713,861</b>
<b>Total impaired loans</b>	<b>3,661,790</b>	<b>189,247</b>	<b>4,142,088</b>	<b>7,993,125</b>	<b>6,200,447</b>	<b>175,305</b>	<b>3,999,530</b>	<b>10,375,282</b>
<b>Loans without specifically identified impairment</b>								
Deposits	63,719	25,019	40	<b>88,778</b>	61,794	5,698	1,060	<b>68,552</b>
Real estate	1,369,391	187,516	759,130	<b>2,316,037</b>	1,497,625	143,711	898,495	<b>2,539,831</b>
Other assets	10,568,681	193,282	113,083	<b>10,875,046</b>	7,349,725	128,116	197,409	<b>7,675,250</b>
Unsecured	2,910,769	174,517	300,450	<b>3,385,736</b>	1,005,111	10,353	331,274	<b>1,346,738</b>
<b>Total loans without specifically identified impairment</b>	<b>14,912,560</b>	<b>580,334</b>	<b>1,172,703</b>	<b>16,665,597</b>	<b>9,914,255</b>	<b>287,878</b>	<b>1,428,238</b>	<b>11,630,371</b>
<b>Total</b>	<b>18,574,350</b>	<b>769,581</b>	<b>5,314,791</b>	<b>24,658,722</b>	<b>16,114,702</b>	<b>463,183</b>	<b>5,427,768</b>	<b>22,005,653</b>

The above amounts represent the carrying value of the loans, before allowance for impairment losses, and do not represent the fair value of collateral. The Bank assesses the fair value of collateral when the loan is extended, when collateral under the loan agreement is changed, when the collateral is foreclosed in the event the borrower is unable to repay the loan, and in the cases and within the periods envisaged by the laws of Ukraine.

As at 30 September 2016, other assets include movable property, goods in turnover, etc.

(in Hryvnias and in thousands, unless otherwise indicated)

As at 30 September 2016, the Bank had a concentration of loans in the amount of UAH 11,809,129 thousand due from ten biggest borrowers/groups of related counterparties of the Bank (47.9% of total loan portfolio) (2015: UAH 10,716,174 thousand or 48.7%).

Loans are granted mainly to the customers operating in Ukraine in the following industries:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Individuals	5,314,791	5,427,768
Manufacturing	5,500,015	4,841,628
Gas transportation	4,655,801	3,957,816
Trade	2,921,770	2,352,786
Agriculture and food processing	2,132,572	1,534,328
Transport	1,703,393	1,670,597
Services	986,048	1,007,315
Real estate	576,507	401,315
Metallurgy	384,366	405,932
Construction	360,740	309,326
Financing services	85,847	93,719
Other	36,872	3,123
<b>Total</b>	<b>24,658,722</b>	<b>22,005,653</b>

## 11. Investment securities at fair value through profit and losses

Investment securities at fair value through profit and losses comprise:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Ukraine state bonds ("USBs")	376,029	-
<b>Investment securities at fair value through profit and losses</b>	<b>376,029</b>	<b>-</b>

## 12. Investment securities

Investment securities available for sale comprise:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Ukraine state bonds ("USBs")	19,132,448	6,351,169
Corporate bonds	1,030,926	1,169,403
State mortgage institution	916,858	750,007
Municipal bonds	-	59,291
Corporate shares	11,316	11,316
<b>Investment securities available for sale</b>	<b>21,091,548</b>	<b>8,341,186</b>

As at 30 September 2016, total accumulated impairment loss recognized in respect of investment securities amounted to UAH 405,168 thousand (2015: UAH 408,732 thousand) (Note 27). The change in the amount of accumulated impairment losses was mainly due to impairment of corporate bonds.

As at 30 September 2016, corporate bonds with the fair value of UAH 712,433 thousand (2015: UAH 924,800 thousand) were used as a collateral of long-term borrowings from the National Bank of Ukraine (Note 20).

As at 30 September 2016, USBs with the fair value of UAH 114,889 thousand (2015: UAH 115,406 thousand) were used as a collateral to secure a long-term borrowing from one credit institution (Note 21).

(in Hryvnias and in thousands, unless otherwise indicated)

### 13. Investments held to maturity

	<i>Currency</i>	<i>Maturity</i>	<i>Interest rate, %</i>	<i>30 September 2016</i>	<i>31 December 2015</i>
Deposit certificates issued by the National Bank of Ukraine				-	3,023,728
				<u>-</u>	<u>3,023,728</u>

### 14. Investment property

Movements of investment property were as follows:

	<i>30 September 2016</i>	<i>31 December 2015</i>
<b>1 January</b>	<b>47,528</b>	<b>12,071</b>
Proceeds from acquisition of assets of PJSC "JSCB "KYIV"	-	106,124
Transfer (to)/from property and equipment	8,261	(74,567)
Fair value adjustment	-	3,900
<b>30 September/31 December</b>	<b><u>55,789</u></b>	<b><u>47,528</u></b>

Investment properties comprising office premises were held for long-term rental yields and are not occupied by the Bank. Investment property was initially measured at cost, plus transaction costs. Subsequent to initial recognition, investment property is measured at fair value, with gain or loss resulting from the change in the fair value recognized in profit and loss in the period in which it arises.

Included in net gains on the investment property is rental income on the investment property in the amount of UAH 6,331 thousand for the 9 months ended 30 September 2016 (2015: UAH 2,969 thousand).

As at 30 September 2016, investment properties with the carrying values of UAH 29,525 thousand (2015: UAH 28,401 thousand) were used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 20).

### 15. Property and equipment and intangible assets

Movements in property and equipment and intangible assets were as follows:

	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress and items not put into operation</i>	<i>Intangible assets</i>	<i>Total</i>
<b>Cost or revalued amount</b>							
<b>As at 1 January 2016</b>	<b>912,117</b>	<b>295,394</b>	<b>17,061</b>	<b>32,345</b>	<b>51,876</b>	<b>162,648</b>	<b>1,471,441</b>
Additions	-	156,266	2,577	3,827	16,387	94,363	273,420
Disposals	-	(1,918)	(5,026)	(5,398)	-	(287)	(12,629)
Transfers	9,210	11,809	2,432	3,252	(26,703)	-	-
Reclassification from investment property	(8,379)	-	-	-	-	-	(8,379)
<b>As at 30 September 2016</b>	<b><u>912,948</u></b>	<b><u>461,551</u></b>	<b><u>17,044</u></b>	<b><u>34,026</u></b>	<b><u>41,560</u></b>	<b><u>256,724</u></b>	<b><u>1,723,853</u></b>
<b>Accumulated depreciation</b>							
<b>As at 1 January 2016</b>	<b>-</b>	<b>238,258</b>	<b>15,860</b>	<b>20,323</b>	<b>-</b>	<b>51,505</b>	<b>325,946</b>
Depreciation charges	16,069	32,583	979	4,104	-	18,681	72,416
Disposals	-	(358)	(2,463)	(1,508)	-	-	(4,329)
Reclassification from investment property	(118)	-	-	-	-	-	(118)
<b>As at 30 September 2016</b>	<b><u>15,951</u></b>	<b><u>270,483</u></b>	<b><u>14,376</u></b>	<b><u>22,919</u></b>	<b><u>-</u></b>	<b><u>70,186</u></b>	<b><u>393,915</u></b>
<b>Net book value</b>							
<b>As at 1 January 2016</b>	<b><u>912,117</u></b>	<b><u>57,136</u></b>	<b><u>1,201</u></b>	<b><u>12,022</u></b>	<b><u>51,876</u></b>	<b><u>111,143</u></b>	<b><u>1,145,495</u></b>
<b>As at 30 September 2016</b>	<b><u>896,997</u></b>	<b><u>191,068</u></b>	<b><u>2,668</u></b>	<b><u>11,107</u></b>	<b><u>41,560</u></b>	<b><u>186,538</u></b>	<b><u>1,329,938</u></b>

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	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress and items not put into operation</i>	<i>Intangible assets</i>	<i>Total</i>
<b>Cost or revalued amount</b>							
<b>As at 1 January 2015</b>	<b>471,780</b>	<b>288,937</b>	<b>18,493</b>	<b>34,087</b>	<b>28,017</b>	<b>64,990</b>	<b>906,304</b>
Additions from acquisition of assets of PJSC "JSCB "KYIV"	303,156	3,933	–	5,654	16,866	1	329,610
Additions	–	9,967	390	–	9,419	97,658	117,434
Disposals	–	(7,443)	(1,954)	(7,788)	–	(1)	(17,186)
Transfers	2,099	–	132	392	(2,623)	–	–
Revaluation	61,030	–	–	–	–	–	61,030
Reclassification from investment property	74,052	–	–	–	197	–	74,249
<b>As at 31 December 2015</b>	<b>912,117</b>	<b>295,394</b>	<b>17,061</b>	<b>32,345</b>	<b>51,876</b>	<b>162,648</b>	<b>1,471,441</b>
<b>Accumulated depreciation</b>							
<b>As at 1 January 2015</b>	<b>22,977</b>	<b>219,273</b>	<b>15,253</b>	<b>18,816</b>	–	<b>44,524</b>	<b>320,843</b>
Depreciation charges	15,183	26,307	2,035	5,737	–	6,981	56,243
Disposals	–	(7,322)	(1,428)	(4,230)	–	–	(12,980)
Reclassification from investment property	(318)	–	–	–	–	–	(318)
Revaluation	(37,842)	–	–	–	–	–	(37,842)
<b>As at 31 December 2015</b>	<b>–</b>	<b>238,258</b>	<b>15,860</b>	<b>20,323</b>	<b>–</b>	<b>51,505</b>	<b>325,946</b>
<b>Net book value</b>							
<b>As at 1 January 2015</b>	<b>448,803</b>	<b>69,664</b>	<b>3,240</b>	<b>15,271</b>	<b>28,017</b>	<b>20,466</b>	<b>585,461</b>
<b>As at 31 December 2015</b>	<b>912,117</b>	<b>57,136</b>	<b>1,201</b>	<b>12,022</b>	<b>51,876</b>	<b>111,143</b>	<b>1,145,495</b>

As at 30 September 2016, the carrying amount of buildings and land plots that would have been included in the financial statements had the buildings and land been carried at their cost, less any accumulated depreciation and any accumulated impairment losses were UAH 932,786 thousand (2015: UAH 833,045 thousand).

As at 30 September 2016, property and equipment with the carrying amount of UAH 217,029 thousand (2015: UAH 519,824 thousand) were used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 20).

## 16. Assets held for sale

As at 30 September 2016, assets held for sale with the carrying amounts of UAH 1,121,088 thousand (2015: UAH 970,165 thousand) were received as repayment of debts from the Bank's customers.

	<i>Land</i>	<i>Non- residential property</i>	<i>Residential property</i>	<i>Ownership rights</i>	<i>Total</i>
<b>Cost or revalued amount</b>					
<b>On 1 January 2016</b>	<b>397,984</b>	<b>414,223</b>	<b>121,252</b>	<b>36,706</b>	<b>970,165</b>
Additions	35,674	190,103	6,332	–	232,109
Sale	(67,132)	(14,054)	–	–	(81,186)
<b>On 30 September 2016</b>	<b>366,526</b>	<b>590,272</b>	<b>127,584</b>	<b>36,706</b>	<b>1,121,088</b>
<b>Cost or revalued amount</b>					
<b>On 1 January 2015</b>	<b>371,948</b>	<b>426,289</b>	<b>71,622</b>	<b>36,706</b>	<b>906,565</b>
Additions	–	71,062	9,820	–	80,882
Proceeds from acquisition of assets of PJSC "JSCB "KYIV"	26,036	19,417	39,810	–	85,263
Revaluation	–	(100,285)	–	–	(100,285)
Sale	–	(2,260)	–	–	(2,260)
<b>On 31 December 2015</b>	<b>397,984</b>	<b>414,223</b>	<b>121,252</b>	<b>36,706</b>	<b>970,165</b>

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As at 30 September 2016, assets held for sale with the fairing amount of UAH 59,683 thousand (2015: UAH 59,683 thousand) were used as collateral to secure borrowings received from the National Bank of Ukraine (Note 20).

## 17. Taxation

Income tax expense/(benefit) comprise:

	<b>9 months ended 30.09.2016</b>	<b>9 months ended 30.09.2015</b>
Changes in deferred taxes – origination and reversal of temporary differences	34,632	40,991
Less: deferred tax recognized in other comprehensive income	–	(51,767)
<b>Income tax expense/(benefit)</b>	<b>34,632</b>	<b>(10,776)</b>

Reconciliation of the income tax expense/(benefit) based on the current tax rates and actual income tax expense/(benefit) is as follows:

	<b>9 months ended 30.09.2016</b>	<b>9 months ended 30.09.2015</b>
<b>Profit/(loss) before income tax</b>	<b>151,261</b>	<b>(282,762)</b>
Statutory tax rate	18%	18%
<b>Theoretical income tax expense/(benefit) at the statutory rate</b>	<b>27,227</b>	<b>(50,897)</b>
Non-deductible expense for taxation (which is adjusted)	34,082	20,752
Adjustments to the tax base due to changes in laws	(88,223)	(83,805)
Changes in unrecognized deferred tax assets	61,546	103,174
<b>Income tax expense/(benefit)</b>	<b>34,632</b>	<b>(10,776)</b>

As at 30 September 2016 and 30 September 2015, deferred tax assets and liabilities and their movements for the respective periods were as follows:

	<b>Origination and reversal of temporary differences</b>		<b>9 months ended 30.09.2016</b>	<b>Origination and reversal of temporary differences</b>		<b>9 months ended 30.09.2015</b>
	<b>In profit or loss</b>	<b>In equity</b>		<b>In profit or loss</b>	<b>In equity</b>	
<b>Tax effect of non-taxable temporary differences</b>						
Derivative financial instruments	–	–	–	118,475	–	–
Accruals and provisions	69,589	–	(39,073)	(70,043)	–	61,025
Property and equipment and intangible assets	58,338	–	44,652	(55,010)	–	(11,516)
Reserves of vacations bonus	(1,599)	–	1,442	–	–	–
Others	–	–	–	3,735	–	3,735
Tax losses carried forward	(99,414)	–	739,465	–	–	963,760
<b>Deferred tax assets/(liabilities), gross</b>	<b>26,914</b>	<b>–</b>	<b>746,486</b>	<b>(2,843)</b>	<b>–</b>	<b>1,017,004</b>
Unrecognized deferred tax asset	(61,546)	–	(701,760)	103,174	–	(860,586)
<b>Deferred tax assets/(liabilities)</b>	<b>(34,632)</b>	<b>–</b>	<b>44,726</b>	<b>100,331</b>	<b>–</b>	<b>156,418</b>
<b>Tax effect of taxable temporary differences</b>						
Valuation of investment securities available for sale	–	–	–	(88,069)	(51,767)	–
Reserves of vacations bonus	–	–	–	(1,486)	–	(1,486)
<b>Deferred tax (liabilities)/assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(89,555)</b>	<b>(51,767)</b>	<b>(1,486)</b>
<b>Deferred tax assets/(liabilities), net</b>	<b>(34,632)</b>	<b>–</b>	<b>44,726</b>	<b>10,776</b>	<b>(51,767)</b>	<b>154,932</b>

Due to the different periods of preparation and provision of the interim financial statements and the tax returns for income tax, there can be no substantial differences that will be reflected in accounting for the current period.

Starting from 1 January 2015, the amendments to the tax law came in force in tax accountings based solely on the rules of international accounting standards and reporting is conducted in accordance with the Tax Code of Ukraine. Taxable income is the financial result before taxation, as defined in the financial statements in accordance with International Financial Reporting Standard, adjusted for differences that are defined by the Tax Code of Ukraine. Thus, tax accounting on the basis of accounting with further tax adjustments for timely and accurate tax reporting. According



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to the amendments to the Tax Code of Ukraine from 01.01.2016, the tax reporting of income tax and is provided quarterly to the State Fiscal Service of Ukraine at the place of registration.

## 18. Allowance for impairment of assets and other provisions

	<i>Other assets</i>	<i>Guarantees and commitments</i>	<i>Total</i>
<b>As at 31 December 2014</b>	<b>319,564</b>	<b>7,023</b>	<b>326,587</b>
Charge/(reversal)	34,291	(8,170)	26,121
Amounts written off	(20)	-	(20)
Currency differences	17,131	1,702	18,833
<b>As at 30 September 2015</b>	<b>510,231</b>	<b>244</b>	<b>405,779</b>
<b>As at 31 December 2015</b>	<b>510,231</b>	<b>2,461</b>	<b>512,692</b>
Charge	37,615	104,820	142,435
Amounts written off	(6)	-	(6)
Currency differences	2,953	3,831	6,784
<b>As at 30 September 2016</b>	<b>550,793</b>	<b>111,112</b>	<b>661,795</b>

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded as liabilities.

## 19. Other assets and liabilities

Other assets comprise:

	<i>30 September 2016</i>	<i>31 December 2015</i>
Receivables for securities	556,166	556,166
Prepayments	99,177	68,749
Receivables for operations with credit cards	69,826	36,333
Cash and precious metals, which are located in the temporarily occupied territory of the Autonomous Republic of Crimea and not controlled by the Ukrainian authorities of the Luhansk and Donetsk regions	49,117	45,574
Clearing payments for payment cards	40,058	27,474
Other receivables for operations with banks	31,751	23,499
Other income accrued	30,821	24,728
Inventories	10,593	6,554
Receivables from employees	2,140	2,045
Taxes recoverable, other than income tax	818	77
Other	17,584	864
	<b>908,051</b>	<b>792,063</b>
Less: allowance for impairment of other assets (Note 18)	(550,793)	(510,231)
<b>Other assets</b>	<b>357,258</b>	<b>281,832</b>

Other liabilities comprise:

	<i>30 September 2016</i>	<i>31 December 2015</i>
Other accounts payable	115,930	84,409
Accruals for unused vacations	44,497	34,245
Payables on operations with clients on the purchase and sale of foreign currency, bank and precious metals	43,986	123,357
Payables on operations with clients	26,316	26,829
Payables to Individual Deposits Guarantee Fund	21,680	21,422
Payables on operations with agents and partners	11 239	2 495
Payables on rental properties	9 451	2 674
Payables on operations with plastic cards	5,678	338
Payables to plastic cards transactions processing center	2,467	1,857
Payables on operations with clients on the sale of a financial assets	-	118,243
Other	30,363	20,744
<b>Other liabilities</b>	<b>311,607</b>	<b>436,614</b>

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## 20. Due to the National Bank of Ukraine

Borrowings from the National Bank of Ukraine comprise:

	<i>Currency</i>	<i>Maturity</i>	<i>Interest rate, %</i>	<i>30 September 2016</i>	<i>31 December 2015</i>
Short-term refinancing borrowings from the National Bank of Ukraine	UAH	30 June 2016	7.0	–	42,155
	UAH	29 February 2016	7.0	–	10,521
<b>Total short-term borrowings from the National Bank of Ukraine</b>				<b>–</b>	<b>52,676</b>
Long-term refinancing borrowings from the National Bank of Ukraine	UAH	30 June 2017	Discount rate of the National Bank of Ukraine + 0.5	–	792,472
	UAH	31 August 2018	Discount rate of the National Bank of Ukraine + 0.5	196,629	189,620
	UAH	30 April 2019	Discount rate of the National Bank of Ukraine + 0.5	194,249	187,659
	UAH	28 December 2017	Discount rate of the National Bank of Ukraine + 0.5	155,567	149,702
	UAH	28 February 2017	Discount rate of the National Bank of Ukraine + 0.5	52,027	88,233
	UAH	30 May 2016	Discount rate of the National Bank of Ukraine + 0.5	–	107,982
	UAH	29 June 2016	Discount rate of the National Bank of Ukraine + 0.5	–	107,980
				<b>598,473</b>	<b>1,623,648</b>
Long-term stabilization borrowing from the National Bank of Ukraine	UAH	30 June 2017	Discount rate of the National Bank of Ukraine + 0.5	–	2,607,934
<b>Total long-term borrowings from the National Bank of Ukraine</b>				<b>598,473</b>	<b>4,231,582</b>
<b>Total borrowings from the National Bank of Ukraine</b>				<b>598,473</b>	<b>4,284,258</b>

As at 30 September 2016, a discount rate of the National Bank of Ukraine was 15.0% (2015: 22.0%).

Interest rates on borrowings from the National Bank of Ukraine were set at the discount rate of the National Bank of Ukraine on the date of their receipt plus 0.5% and may be changed only in case of decrease of the discount rate of the NBU.

As at 30 September 2016 corporate bonds with the fair value of UAH 712,433 thousand (2015: UAH 924,800 thousand) were used as a collateral to secure long-term borrowings received from the National Bank of Ukraine (Note 12).

As at 30 September 2016 and 31 December 2015, the following assets were pledged as collateral to secure borrowings from the National Bank of Ukraine:

	<i>Notes</i>	<i>30 September 2016</i>	<i>31 December 2015</i>
Corporate bonds	12	712,433	924,800
Buildings and land plots – property and equipment	15	217,029	519,824
Buildings – investment property	14	29,525	28,401
Assets held for sale	16	59,683	59,683
Loans to customers	10	–	2,367,509
USBs	12	–	59,638
Shares of the Bank owned by shareholders	23	–	3,114,593

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## 21. Due to credit institutions

Due to credit institutions comprises:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Current accounts	1,577,953	2,606,165
Term deposits and loans	335,661	2,349,915
Other due to credit institutions	50,413	35,243
<b>Due to credit institutions</b>	<b>1,964,027</b>	<b>4,991,323</b>

As at 30 September 2016, due to credit institutions include balances in the amount of UAH 257,210 thousand (13.10%) that were placed by one bank (2015: balances in the amount of UAH 2,772,474 thousand (55.55%) that were placed by two banks).

As at 30 September 2016, long-term borrowing received from one credit institution was secured by the USBs with the fair value of UAH 114,889 thousand (2015: UAH 115,406 thousand) (Note 12).

## 22. Due to customers

Due to customers comprise:

	<b>30 September 2016</b>	<b>31 December 2015</b>
<b>Current accounts</b>		
- Legal entities	19,769,579	8,986,194
- Individuals	3,183,038	2,834,355
- Budget organizations	72,377	31,763
	<b>23,024,994</b>	<b>11,852,312</b>
<b>Time deposits</b>		
- Legal entities	10,805,843	7,519,456
- Individuals	9,022,666	8,138,372
- Budget organizations	7,140,895	-
- Repurchase agreements	142,112	-
	<b>27,111,516</b>	<b>15,657,828</b>
<b>Due to customers</b>	<b>50,136,510</b>	<b>27,510,140</b>

As at 30 September 2016, due to customers in the amount of UAH 18,482,392 thousand (36.86%) included due to ten biggest customers of the Bank (2015: UAH 6,194,055 thousand (22.52%)).

Due to customers by industry are summarized as follows:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Individuals	12,205,704	10,972,727
Metallurgy	10,206,525	1,749,396
Services	8,940,104	1,688,946
Transport	7,612,389	3,841,517
Manufacturing	1,850,801	1,552,423
Insurance	1,557,110	1,625,347
Financing services	1,360,306	1,146,600
Energy	1,445,111	1,049,129
Trade	821,009	1,088,432
Agriculture and food industry	402,397	537,040
Construction	371,059	346,226
Other	3,363,995	1,912,357
<b>Due to customers</b>	<b>50,136,510</b>	<b>27,510,140</b>

As at 30 September 2016, category "Other" includes funds of non-resident legal entities in the amount UAH 3,361,502 thousand (2015: UAH 1,909,148 thousand).

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## 23. Equity

### Share capital

As at 30 September 2016, authorized issued share capital comprised 13,836,522,922 ordinary shares and 477,078 preferred shares (2015: 13,836,522,922 ordinary shares and 477,078 preferred shares), with the nominal value of UAH 1 per share. Ordinary shares give rights to their holders to participate in the General Shareholders' Meetings, receive dividends and share value. The shareholders-owners of preferred shares have a vote right in certain cases according to the Charter and are entitled to receive annual fixed amounts of dividends, except for certain cases envisaged by the laws.

The number of issued and fully paid shares is as follows:

	Number of shares, thousands of units		Nominal value, UAH thousands		Nominal value, UAH thousands	Total, UAH thousands
	Ordinary	Preferred	Ordinary	Preferred		
<b>At 31 December 2014</b>	<b>9,999,523</b>	<b>477</b>	<b>9,999,523</b>	<b>477</b>	<b>10,000,000</b>	<b>10,000,000</b>
Issued and registered shares	3,837,000	–	3,837,000	–	3,837,000	3,837,000
<b>At 31 December 2015</b>	<b>13,836,523</b>	<b>477</b>	<b>13,836,523</b>	<b>477</b>	<b>13,837,000</b>	<b>13,837,000</b>
Issued and registered shares	–	–	–	–	–	–
<b>At 30 September 2016</b>	<b>13,836,523</b>	<b>477</b>	<b>13,836,523</b>	<b>477</b>	<b>13,837,000</b>	<b>13,837,000</b>

### Movements in other reserves

Movements in other reserves were as follows:

	Property and equipment revaluation reserve	Revaluation reserve for investment securities available for sale	Total
<b>As at 31 December 2014</b>	<b>188,534</b>	<b>(234,226)</b>	<b>(45,692)</b>
Revaluation of property and equipment	99,582	–	99,582
Income tax associated with revaluation of property and equipment	(17,925)	–	(17,925)
(Losses) from investment securities available for sale	–	(105,452)	(105,452)
Income tax related to investment securities available for sale	–	(49,625)	(49,625)
Other revaluation related adjustments	–	(3,738)	(3,738)
<b>As at 31 December 2015</b>	<b>270,191</b>	<b>(393,041)</b>	<b>(122,850)</b>
(Losses) on investment securities available for sale	–	351,311	351,311
<b>As at 30 September 2016</b>	<b>270,191</b>	<b>(41,730)</b>	<b>228,461</b>

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## 24. Result from transactions with shareholders

### Results from the transfer of assets and assumption of obligations of PJSC "JSCB "KYIV"

According to the Decree of the Cabinet of Ministers of Ukraine dated 11 February 2015 # 61, "Some issues of state involvement in the withdrawal from the market Public Joint Stock Company "Joint Stock Commercial Bank "KYIV" 19 June 2015 JSB "UKRGASBANK" has completed the transfer of assets and obligations of PJSC "JSCB "KYIV". The transfer of assets was carried out at their fair value, while obligations were transferred at their carrying value in accordance with the Ukrainian law.

In table below the values of assets and obligations are presented at the date of transfer:

	<u>Notes</u>	<u>At the date of transfer</u>
<b>Assets</b>		
Cash and cash equivalents	7	19,584
Due from credit institutions	8	9,133
Loans to customers	10	186,815
Investment securities available for sale	12	1,213
Investment property		106,124
Property and equipment and intangible assets	15	329,610
Assets held for sale	16	85,263
Other assets	19	2,375
<b>Total assets</b>		<b><u>740,117</u></b>
<b>Liabilities</b>		
Due to the National Bank of Ukraine		782,409
Due to credit institutions	20	81
Due to customers	21	595,088
Other liabilities	22	1,783
<b>Total liabilities</b>	19	<b><u>1,379,361</u></b>
<b>Equity</b>		
Result from transactions with shareholders		(639,244)

Effect from initial recognition of liabilities at their fair value equals UAH 12,208 thousand.

The Board of the National Bank of Ukraine adopted the Resolution dated 24 June 2015 # 411 "On revocation of the banking license and liquidation of Public Joint Stock Company "Joint Stock Commercial Bank "KYIV".

### Result of initial recognition of the Ukraine state bonds received as share capital contribution

On 2 April 2015, in accordance with the Resolution of the Cabinet of Ministers of Ukraine # 115 dated 18 March 2015 the equity of Bank was increased by the amount of UAH 3,204,000 thousand through the issuance of additional shares of the Bank with nominal value UAH 3,203,998 thousand in exchange for USBs.

On 29 July 2015, in accordance with the Resolution of the Cabinet of Ministers of Ukraine # 384 dated 15 June 2015 the equity of Bank was increased by the amount of UAH 633,000 thousand through the issuance of additional shares of the Bank with nominal value UAH 633,000 thousand in exchange for USBs.

At the date of initial recognition the difference between the nominal and carrying values of USBs received as share capital contribution amounted to UAH (475,268) thousand.

## 25. Commitments and contingencies

### Legal issues

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the amount of liabilities, arising from legal proceedings will not have a material adverse effect on the financial position or the results of future operations of the Bank.

(in Hryvnias and in thousands, unless otherwise indicated)

## Taxation

The Ukrainian tax system is characterized by numerous taxes and frequent changes in the legislation. Tax regulations are often unclear, open to wide interpretation and, in some instances, are controversial. Instances of inconsistent treatment between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not infrequent. Tax returns are subject to review and investigation by a number of authorities that are authorized to impose penalties and interest charges. These facts expose entities operating in Ukraine to more significant risks than those in the countries with more developed tax systems.

Management believes that it has complied with all existing tax legislation requirements. However, no certainty exists that the tax authorities will apply another treatment to the Bank's compliance with the effective legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements because, as at 30 September 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

## Commitments and contingencies

As at 30 September 2016 and 31 December 2015, contractual commitments and contingencies were as follows:

	<b>30 September 2016</b>	<b>31 December 2015</b>
<b>Credit related commitments of the Bank</b>		
Commitment to extend loans*	2,650,000	2,984,256
Guarantees	899,922	338,534
Letters of credit	272,267	129,612
Promissory note guarantees	682	2,257
<b>Total</b>	<b>3,822,871</b>	<b>3,454,659</b>

\* As at 30 September 2016 and 31 December 2015, commitment to extend loans included revocable commitments to the Bank's strategic customers.

As at 30 September 2016, total provisions recognized in respect of the Bank's commitments amounted to UAH 111,112 thousand (2015: UAH 2,461 thousand) (Note 18).

As at 30 September 2016, commitments and contingencies were secured by cash collateral in the amount of UAH 710,528 thousand (2015: UAH 246,292 thousand).

## 26. Net fee and commission income

Net fee and commission income comprises:

	<b>9 months ended 30.09.2016</b>	<b>9 months ended 30.09.2015</b>
Settlements operations	234,298	180,291
Agency operations in the foreign exchange market	29,641	13,791
Guarantees and letters of credit	19,102	1,945
Securities operations	1,483	1,336
Other	24,383	11,658
<b>Fee and commission income</b>	<b>308,907</b>	<b>209,021</b>
Settlements operations	(67,832)	(49,015)
Guarantees and letters of credit	(4,646)	(2,571)
Agency operations in the foreign exchange market	(451)	(926)
Other	(17)	-
<b>Fee and commission expense</b>	<b>(72,946)</b>	<b>(52,512)</b>
<b>Net fee and commission income</b>	<b>235,961</b>	<b>156,509</b>

(in Hryvnias and in thousands, unless otherwise indicated)

## 27. Net gains on investment securities available for sale

Net gains on investment securities available for sale that are recognized in the statement of profit or loss and other comprehensive income comprise:

	<b>9 months ended 30.09.2016</b>	<b>9 months ended 30.09.2015</b>
Net gains on the sale of investment securities available for sale	2,109	3,595
Gains on impairment of investment securities available for sale	3,564	37,516
<b>Net gains on investment securities available for sale</b>	<b>5,673</b>	<b>41,111</b>

## 28. Net gains/(losses) on foreign exchange operations

Net gains/(losses) on foreign exchange operations comprise:

	<b>9 months ended 30.09.2016</b>	<b>9 months ended 30.09.2015</b>
Gains/(losses) from dealing with foreign currencies	933	(181,164)
Gains/(losses) from translation differences	155,300	(423,794)
<b>Net gains on foreign exchange operations</b>	<b>156,233</b>	<b>(604,958)</b>

## 29. Other income

	<b>9 months ended 30.09.2016</b>	<b>9 months ended 30.09.2015</b>
Repayment of purchased impaired financial assets	27 753	2 081
Positive result from sale of assets held for sale	19 062	339
Fees from insurance companies and banks	10 011	2 407
Penalties received	7 580	2 545
Revenue from acquired ownership of due to customers	6 740	1 253
Fees for rental of deposit boxes	4 370	2 608
Compensation costs for utilities of premises leased	3 820	-
Recovery of previously written-off assets	2 240	12
Income from early repayment of customers term deposits	2 151	2 086
Recovery of litigation expenses	1 234	728
Positive result from sale of property and equipment and intangible assets	998	863
Recovery of registration costs	229	107
Services of transportation of valuables	7	917
Marketing services	-	480
Other	4 015	1 724
<b>Total other income</b>	<b>90 210</b>	<b>18 150</b>

(in Hryvnias and in thousands, unless otherwise indicated)

### 30. Staff costs and other operating expense

Staff costs and other operating expense comprise:

	<b>9 months ended 30.09.2016</b>	<b>9 months ended 30.09.2015</b>
Salaries and bonuses	340,613	212,166
Charges on payroll	64,819	68,354
Contributions to non-government pension fund	-	66
Other staff costs	246	331
<b>Staff costs</b>	<b>405,678</b>	<b>280,917</b>
Professional services	135,559	48,012
Payments to the Individual Deposit Guarantee Fund	66,121	45,439
Communications	46,935	33,359
Repairs and maintenance of property and equipment	44,681	37,052
Taxes, other than income tax	34,419	18,391
Lease and maintenance of premises	25,775	21,552
Software support	13,840	8,026
Marketing and advertising	12,081	2,903
Office supplies	11,349	9,639
Security	11,080	7,963
Collection costs	6,569	5,505
Business trips	4,003	2,186
Charity	1,096	3,135
Fines and penalties	39	132
Other	11,841	12,928
<b>Other operating expense</b>	<b>425,388</b>	<b>256,222</b>

### 31. Risk management

Risk is inherent to the banking activities and is managed through a process of ongoing identification, measurement and monitoring, with reference to risk limits and other controls. The process of risk management is essential to the Bank's performance, and each member of staff is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk and operational risks.

#### Risk management structure

##### *Supervisory Board*

The Supervisory Board is ultimately responsible for final definition and approval of the risks to which the Bank is exposed in the process of its activities and also for capital requirements; however, there are specific committees and departments responsible for managing and monitoring risks.

##### *Management Board*

The Management Board is responsible for the overall risk management and for implementation of risk strategies and principles approved by the Supervisory Board. The Management Board has delegated some authority to operational risk management collegial structures of the Bank sets limits and powers of these collective structures.

##### *Credit Council*

The Credit Council bears the overall responsibility for monitoring and managing the credit and investment portfolio; implementation of the credit and other policies of the Bank's for customers, a lending organization considering other strategic and current plans of the Bank; decisions on the implementation of the Bank's active, including credit, operations of the Bank's customers within the authority; providing measures to control credit risks for transactions with a clients.

##### *Assets and Liabilities Management Committee*

The Assets and Liabilities Management Committee is responsible for establishing internal limits of liquidity gaps, internal limits of currency position by currencies and types of positions, decisions to optimize the currency structure of balance, limiting the amounts of the trading loss, setting limits on sensitivity to interest rate risk, acceptance solutions to optimize the structure of assets and liabilities, monitoring of standards and parameters of resource management and performance resource policy.



(in Hryvnias and in thousands, unless otherwise indicated)

#### *Risk Management Department*

The Risk Management Department provides the methodological support of the process of financial and operational risks; preparing proposals for determining the levels of tolerance to the Bank's financial and operational risks; provides an independent assessment of current compliance with existing policies and procedures to financial and operational risks; ensure implementation of quantitative and qualitative assessment based on predefined parameters risks faced by the Bank or which may continue to appear in his work.

#### *Risk concentration*

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

In order to avoid excessive concentration of risks, policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of risks are controlled and managed accordingly.

#### **Credit risk**

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including procedures for monitoring of the borrowers' financial position, stress-testing, and regular collateral revisions.

#### *Derivative financial instruments*

Credit risk arising from derivative financial instruments is limited to a nominal amount under the relevant contracts.

#### *Credit-related commitments risks*

The Bank makes guarantees available to its customers which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of credit. They expose the Bank to risks that are similar to risks from loans and are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivative financial instruments. The maximum exposure is shown net of allowance for impairment and net amount of derivative financial instruments.

	<i>Notes</i>	<b>Maximum exposure, 30 September 2016</b>	<b>Maximum exposure, 31 December 2015</b>
Cash and cash equivalents (other than cash on hand)	7	2,726,098	3,234,581
Due from credit institutions	8	12,828,617	9,623,078
Derivative financial assets	9	6,637	14,707
Loans to customers	10	17,244,223	14,029,078
Investment securities at fair value through profit and losses	11	376,029	–
Investment securities available for sale	12	21,080,232	8,329,870
Investments held to maturity	13	–	3,023,728
Other assets		32,904	33,249
		<b>54,294,740</b>	<b>38,288,291</b>
Commitments and contingencies	25	3,711,759	3,452,198
<b>Total credit risk exposure</b>		<b>58,006,499</b>	<b>41,740,489</b>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(in Hryvnias and in thousands, unless otherwise indicated)

For more detail on the maximum exposure to credit risk for each class of financial instrument, refer to the respective notes.

*Credit quality by categories of financial assets*

The credit quality of financial assets after allowances for impairment as at 30 September 2016 is as follows:

	<i>Notes</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
Cash and cash equivalents	7	2,726,098	-	-	<b>2,726,098</b>
Due from credit institutions	8	829,740	-	11,998,877	<b>12,828,617</b>
Loans to customers:	10				
Legal entities		14,472,594	206,424	708,576	<b>15,387,594</b>
SMEs		575,111	2,228	29,208	<b>606,547</b>
Individuals		1,052,422	84,656	113,004	<b>1,250,082</b>
Investment securities available for sale	12	20,982,094	-	109,454	<b>21,091,548</b>
<b>Total</b>		<b>40,638,059</b>	<b>293,308</b>	<b>12,959,119</b>	<b>53,890,486</b>

The credit quality of net financial assets, after allowances for impairment, as at 31 December 2015 is as follows:

	<i>Notes</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
Cash and cash equivalents	7	3,234,581	-	-	<b>3,234,581</b>
Due from credit institutions	8	65,635	-	9,557,443	<b>9,623,078</b>
Loans to customers:	10				
Legal entities		9,588,197	180,441	2,501,002	<b>12,269,640</b>
SMEs		276,686	4,337	16,628	<b>297,651</b>
Individuals		1,282,021	50,150	129,616	<b>1,461,787</b>
Investment securities available for sale	12	8,212,949	-	116,921	<b>8,329,870</b>
Investments held to maturity	13	3,023,728	-	-	<b>3,023,728</b>
<b>Total</b>		<b>25,683,797</b>	<b>234,928</b>	<b>12,321,610</b>	<b>38,240,335</b>

Impaired loans include loans individually assessed for impairment and loans collectively assessed for impairment and found to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographical region and products. The rating system is supported by financial analysts of the Bank, with reference to the market information analyzed to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to various categories and are derived in accordance with the Bank's rating policies. The attributable risk ratings are assessed and updated on a regular basis.

The credit rating of Ukraine, according to the international rating agencies, as at 30 September 2016, corresponded to a speculative level of CCC (2015: CCC).

Investment securities available for sale, in particular Ukrainian state bonds and unrated municipal bonds, were assigned by the Bank to the category of Lower than B- in accordance with the sovereign credit rating of Ukraine.

Other balances of cash and cash equivalents, due from credit institutions and investment securities available for sale are classified with reference to current credit ratings assigned by international rating agencies. In the event a counterparty does not have an international rating assigned to it at the reporting date, the Bank used the ratings assigned by national rating agencies. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as speculative grade.

(in Hryvnias and in thousands, unless otherwise indicated)

The following table details the credit ratings of financial assets of the Bank:

	<i>uaAAA – A-</i>	<i>uaBBB – B-</i>	<i>Lower than B-</i>	<i>Unrated</i>	<b>30 September 2016</b>
Cash and cash equivalents (other than cash on hand)	39,793	79	2,686,226	–	<b>2,726,098</b>
Due from credit institutions	340,131	11,489,389	101	998,996	<b>12,828,617</b>
Investment securities at fair value through profit and losses	–	–	376,029	–	<b>376,029</b>
Investment securities available for sale	104,509	–	20,983,871	3,168	<b>21,091,548</b>
					<b>31 December 2015</b>
Cash and cash equivalents (other than cash on hand)	–	–	3,234,581	–	<b>3,234,581</b>
Due from credit institutions	8,750,394	764,515	108,169	–	<b>9,623,078</b>
Investment securities available for sale	94,087	59,291	8,059,570	116,922	<b>8,329,870</b>
Investments held to maturity	–	–	3,023,728	–	<b>3,023,728</b>

Ageing of past due loans is provided below.

Ageing analysis of past due but not impaired loans as at 30 September 2016 is as follows:

	<b>Up to 31 days</b>	<b>From 31 to 60 days</b>	<b>From 61 to 90 days</b>	<b>Over 90 days</b>	<b>Total</b>
<b>Loans to customers</b>					
Legal entities	65,469	–	–	140,955	<b>206,424</b>
SMEs	1,961	267	–	–	<b>2,228</b>
Individuals	75,041	7,623	1,551	441	<b>84,656</b>
<b>Total</b>	<b>142,471</b>	<b>7,890</b>	<b>1,551</b>	<b>141,396</b>	<b>293,308</b>

Ageing analysis of past due but not impaired loans as at 31 December 2015 is as follows:

	<b>Up to 31 days</b>	<b>From 31 to 60 days</b>	<b>From 61 to 90 days</b>	<b>Over 90 days</b>	<b>Total</b>
<b>Loans to customers</b>					
Legal entities	–	–	26,285	154,156	<b>180,441</b>
SMEs	3,712	351	274	–	<b>4,337</b>
Individuals	40,275	7,121	1,742	1,012	<b>50,150</b>
<b>Total</b>	<b>43,987</b>	<b>7,472</b>	<b>28,301</b>	<b>155,168</b>	<b>234,928</b>

See Note 10 for more details with respect to the allowance for impairment of loans to customers.

(in Hryvnias and in thousands, unless otherwise indicated)

## Geographical concentration

The following table summarizes geographical concentration of monetary assets and liabilities:

	30 September 2016			Total
	Ukraine	OECD countries	CIS and other foreign banks	
<b>Assets</b>				
Cash and cash equivalents	3,430,886	-	-	3,430,886
Precious metals	17,078	-	-	17,078
Due from credit institutions	1,023,529	11,790,305	14,783	12,828,617
Derivative financial assets	6,637	-	-	6,637
Loans to customers	17,244,223	-	-	17,244,223
Investment securities at fair value through profit and losses	376,029	-	-	376,029
Investment securities available for sale	21,091,543	5	-	21,091,548
Other assets	32,904	-	-	32,904
	<b>43,222,829</b>	<b>11,790,310</b>	<b>14,783</b>	<b>55,027,922</b>
<b>Liabilities</b>				
Due to the National Bank of Ukraine	598,473	-	-	598,473
Due to credit institutions	1,964,027	-	-	1,964,027
Derivative financial liabilities	26,423	-	-	26,423
Due to customers	50,136,510	-	-	50,136,510
Provisions for guarantees and commitments	111,112	-	-	111,112
Other liabilities	75,980	-	-	75,980
	<b>52,912,525</b>	<b>-</b>	<b>-</b>	<b>52,912,525</b>
<b>Difference between assets and liabilities</b>	<b>(9,689,696)</b>	<b>11,790,310</b>	<b>14,783</b>	<b>2,115,397</b>

	31 December 2015			Total
	Ukraine	OECD countries	CIS and other foreign banks	
<b>Assets</b>				
Cash and cash equivalents	3,969,997	-	-	3,969,997
Precious metals	24,267	-	-	24,267
Due from credit institutions	112,287	9,472,788	38,003	9,623,078
Derivative financial assets	14,707	-	-	14,707
Loans to customers	14,029,078	-	-	14,029,078
Investment securities available for sale	8,341,182	4	-	8,341,186
Investments held to maturity	3,023,728	-	-	3,023,728
Other assets	33,249	-	-	33,249
	<b>29,548,495</b>	<b>9,472,792</b>	<b>38,003</b>	<b>39,059,290</b>
<b>Liabilities</b>				
Due to the National Bank of Ukraine	4,284,258	-	-	4,284,258
Due to credit institutions	4,991,323	-	-	4,991,323
Derivative financial liabilities	37,898	-	-	37,898
Due to customers	27,510,140	-	-	27,510,140
Provisions for guarantees and commitments	2,461	-	-	2,461
Other liabilities	150,524	-	-	150,524
	<b>36,976,604</b>	<b>-</b>	<b>-</b>	<b>36,976,604</b>
<b>Difference between assets and liabilities</b>	<b>(7,428,109)</b>	<b>9,472,792</b>	<b>38,003</b>	<b>2,082,686</b>

## Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To mitigate this risk, management uses different sources of funding in addition to the main base of deposits. Management of the Bank also performs day-to-day liquidity management activities, with due account for balances on the correspondent accounts and cash inflow/outflow projections; management of current liquidity (up to 1 month) through identification of the Bank's requirements for liquid assets and assessment of the liquidity gaps for the period; management of liquidity over 1 month through assessment of mismatch between maturities on assets and liabilities and development of remedial measures to maintain the Bank's relevant liquidity levels in the future.

(in Hryvnias and in thousands, unless otherwise indicated)

*Analysis of financial liabilities by remaining contractual maturities*

Analysis of assets and liabilities of the Bank by the estimated dates of their recovery or repayment is discussed in Note 33.

The tables below summarize the information on undiscounted cash flows of financial liabilities as at 30 September 2016 and 31 December 2015 based on the remaining time to maturity. Liabilities that are subject to repayment on demand are to be repaid on the earliest possible date. However, the Bank expects that most customers will not demand repayment on the earliest possible date.

<b>Financial liabilities as at 30 September 2016</b>	<b>Up to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Due to the National Bank of Ukraine	41,850	167,677	505,623	-	<b>715,150</b>
Due to credit institutions	1,864,741	1,715	101,266	-	<b>1,967,722</b>
Gross settled derivative financial instruments:					
- amounts payable	(3,048,779)	-	-	-	<b>(3,048,779)</b>
- amounts receivable	3,075,202	-	-	-	<b>3,075,202</b>
Due to customers	44,883,048	5,787,909	370,992	2,015	<b>51,043,964</b>
Other liabilities	75,980	-	-	-	<b>75,980</b>
<b>Total undiscounted financial liabilities</b>	<b>46,892,042</b>	<b>5,957,301</b>	<b>977,881</b>	<b>2,015</b>	<b>53,829,239</b>

<b>Financial liabilities as at 31 December 2015</b>	<b>Up to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Due to the National Bank of Ukraine	2,957,786	939,090	673,301	-	<b>4,570,177</b>
Due to credit institutions	3,404,308	1,652,894	93,295	-	<b>5,150,497</b>
Gross settled derivative financial instruments:					
- amounts payable	(3,911,839)	-	-	-	<b>(3,911,839)</b>
- amounts receivable	3,949,738	-	-	-	<b>3,949,738</b>
Due to customers	22,748,084	5,068,177	325,926	2,368	<b>28,144,555</b>
Other liabilities	150,524	-	-	-	<b>150,524</b>
<b>Total undiscounted financial liabilities</b>	<b>29,298,601</b>	<b>7,660,161</b>	<b>1,092,522</b>	<b>2,368</b>	<b>38,053,652</b>

The table below shows the contractual maturity of commitments and contingencies of the Bank. Each undrawn loan commitments are included in the time period containing the earliest date when a customer may require its fulfillment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be required for settlement.

	<b>Up to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
30 September 2016	461,709	3,249,499	111,663	-	<b>3,822,871</b>
31 December 2015	41,067	3,372,501	41,091	-	<b>3,454,659</b>

The Bank expects that not all of the commitments and contingencies will be drawn before expiry of the commitments.

**Operating risk**

Operating risk is direct or potential risk of losses for proceeds and equity due to imperfection, error, deficiency, delay, and damage caused by internal processes, staff, and systems or external events (e.g. fraud or natural disaster).

Operating risk management is the responsibility of the Bank's Management Board which is authorized to establish principles to ensure the methodology for effective management and monitoring of operating risks. Operating Risk Management Committee is an executive committee of the Management Board the function of which include implementing operating risk management policies, improving business processes, implementing internal control systems/additional controls, developing measures based on reviews of operating incidents.

(in Hryvnias and in thousands, unless otherwise indicated)

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and security prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risks for non-trading positions are managed and monitored using sensitivity analysis.

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables remaining unchanged in the Bank's statement of profit or loss and other comprehensive income. Sensitivity of the statement of profit or loss and other comprehensive income reflects the effect of the assumed changes in interest rates on the Bank's net interest income for one year, based on the floating interest rates for non-trading financial assets and financial liabilities held as at 30 September 2016 and 30 September 2015.

<i>Currency</i>	<i>Increase in basis points, 30 September 2016</i>	<i>Effect on net interest income, 30 September 2016</i>	<i>Decrease in interest rate, basis points, 30 September 2016</i>	<i>Effect on net interest income, 30 September 2016</i>
UAH	+100	(32,976)	-100	32,976
EUR	+100	(989)	-100	989

  

<i>Currency</i>	<i>Increase in basis points, 30 September 2015</i>	<i>Effect on net interest income, 30 September 2015</i>	<i>Decrease in interest rate, basis points, 30 September 2015</i>	<i>Effect on net interest income, 30 September 2015</i>
UAH	+100	(51,927)	-100	51,927
EUR	+100	(820)	-25	205

(in Hryvnias and in thousands, unless otherwise indicated)

## Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Assets and Liabilities Management Committee sets limits on positions by currencies based on the requirements of the National Bank of Ukraine. Currency positions are monitored on a daily basis.

The major foreign currency denominated positions of assets and liabilities as at 30 September 2016 are as follows:

	<i>UAH</i>	<i>USD</i>	<i>EUR</i>	<i>Other currencies</i>	<i>Total</i>
<b>Assets</b>					
Cash and cash equivalents and current accounts in the National Bank of Ukraine	3,156,436	168,993	79,263	26,194	<b>3,430,886</b>
Precious metals	-	-	-	17,078	<b>17,078</b>
Due from credit institutions	992,561	9,035,687	2,631,207	169,162	<b>12,828,617</b>
Loans to customers	13,701,911	3,167,189	375,123	-	<b>17,244,223</b>
Investment securities at fair value through profit and losses	20,792	355,237	-	-	<b>376,029</b>
Investment securities available for sale	10,185,876	10,905,672	-	-	<b>21,091,548</b>
Investment property	55,789	-	-	-	<b>55,789</b>
Property and equipment and intangible assets	1,329,938	-	-	-	<b>1,329,938</b>
Assets held for sale	1,121,088	-	-	-	<b>1,121,088</b>
Current income tax assets	4,921	-	-	-	<b>4,921</b>
Deferred income tax assets	44,726	-	-	-	<b>44,726</b>
Other assets	334,412	20,587	1,541	718	<b>357,258</b>
<b>Total assets</b>	<b>30,948,450</b>	<b>23,653,365</b>	<b>3,087,134</b>	<b>213,152</b>	<b>57,902,101</b>
<b>Liabilities</b>					
Amounts due to National Bank of Ukraine	598,473	-	-	-	<b>598,473</b>
Due to credit institutions	434,830	1,242,422	247,233	39,542	<b>1,964,027</b>
Due to customers	26,481,111	20,715,031	2,858,252	82,116	<b>50,136,510</b>
Provisions for guarantees and commitments	47	-	111,065	-	<b>111,112</b>
Other liabilities	242,697	54,548	8,034	6,328	<b>311,607</b>
<b>Total liabilities</b>	<b>27,757,158</b>	<b>22,012,001</b>	<b>3,224,584</b>	<b>127,986</b>	<b>53,121,729</b>
<b>Net long/(short) recognized position</b>	<b>3,191,292</b>	<b>1,641,364</b>	<b>(137,450)</b>	<b>85,166</b>	
<b>Off-balance items</b>					
Assets receivable	2,597,298	2,589,351	1,432,786	455,526	<b>7,074,961</b>
Assets for delivery	(1,006,874)	(4,231,472)	(1,336,862)	(519,539)	<b>(7,094,747)</b>
<b>Net long/(short) unrecognized position</b>	<b>1,590,424</b>	<b>(1,642,121)</b>	<b>95,924</b>	<b>(64,013)</b>	
<b>Total long/(short) recognized and unrecognized position</b>	<b>4,781,716</b>	<b>(757)</b>	<b>(41,526)</b>	<b>21,153</b>	

(in Hryvnias and in thousands, unless otherwise indicated)

The major foreign currency denominated positions of assets and liabilities as at 31 December 2015 are as follows:

	UAH	USD	EUR	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents and current accounts in the National Bank of Ukraine	3,465,776	267,038	221,524	15,659	3,969,997
Precious metals	–	–	–	24,267	24,267
Due from credit institutions	82,267	8,878,118	524,885	137,808	9,623,078
Loans to customers	8,107,429	5,714,257	207,392	–	14,029,078
Investment securities available for sale	7,414,809	926,377	–	–	8,341,186
Investments held to maturity	3,023,728	–	–	–	3,023,728
Investment property	47,528	–	–	–	47,528
Property and equipment and intangible assets	1,145,495	–	–	–	1,145,495
Assets held for sale	970,165	–	–	–	970,165
Current income tax assets	4,921	–	–	–	4,921
Deferred income tax assets	79,358	–	–	–	79,358
Other assets	272,727	7,936	986	183	281,832
<b>Total assets</b>	<b>24,614,203</b>	<b>15,793,726</b>	<b>954,787</b>	<b>177,917</b>	<b>41,540,633</b>
<b>Liabilities</b>					
Amounts due to National Bank of Ukraine	4,284,258	–	–	–	4,284,258
Due to credit institutions	281,711	4,494,200	207,354	8,058	4,991,323
Due to customers	16,910,148	8,914,443	1,617,252	68,297	27,510,140
Provisions for guarantees and commitments	2,459	2	–	–	2,461
Other liabilities	380,241	48,995	6,659	719	436,614
<b>Total liabilities</b>	<b>21,858,817</b>	<b>13,457,640</b>	<b>1,831,265</b>	<b>77,074</b>	<b>37,224,796</b>
<b>Net long (short) recognized position</b>	<b>2,755,386</b>	<b>2,336,086</b>	<b>(876,478)</b>	<b>100,843</b>	
<b>Off-balance items</b>					
Assets receivable	2,164,633	1,423,703	1,940,322	5,039	5,533,697
Assets for delivery	(467,891)	(3,948,224)	(1,053,701)	(87,072)	(5,556,888)
<b>Net long (short) unrecognized position</b>	<b>1,696,742</b>	<b>(2,524,521)</b>	<b>886,621</b>	<b>(82,033)</b>	
<b>Total long (short) recognized and unrecognized position</b>	<b>4,452,128</b>	<b>(188,435)</b>	<b>10,143</b>	<b>18,810</b>	

The tables below indicate the currencies to which the Bank had significant exposure as at 30 September 2016 and 31 December 2015 on its non-trading monetary assets and liabilities and its estimated cash flows. The analysis includes the effect of a possible change in the currency exchange rate of UAH against foreign currencies, with all other variables remaining unchanged in the Bank's statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities that are available in the Bank's portfolio). A negative amount in the table reflects a potential net increase in loss or decrease in equity, while a positive amount reflects a net potential decrease in loss or increase in equity.

Currency	Increase in foreign currency exchange rate, % 30 September 2016	Effect on loss before tax, 30 September 2016	Increase in foreign currency exchange rate, % 30 September 2015	Effect on loss before tax, 30 September 2015
USD	67.00%	(507)	100.00%	(1,967,434)
EUR	67.00%	(27,822)	100.00%	(1,397,267)
Currency	Decrease in foreign currency exchange rate, % 30 September 2016	Effect on loss before tax, 30 September 2016	Decrease in foreign currency exchange rate, % 30 September 2015	Effect on loss before tax, 30 September 2015
USD	-18.00%	136	-100.00%	1,967,434
EUR	-18.00%	7,475	-100.00%	1,397,267



(in Hryvnias and in thousands, unless otherwise indicated)

## 32. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The estimated fair value has been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument or pay in the transfer of liabilities.

### Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis and fair value of buildings

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Some of the Bank's financial assets and financial liabilities, as well as the Bank's buildings, are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used):

<b>Assets/liabilities</b>	<b>Fair value hierarchy</b>	<b>Valuation techniques and key inputs</b>
Investment securities at fair value through profit and losses	1	Quoted bid prices in an active market.
Investment securities available for sale	2	Discounted cash flows. Future cash flows are estimated based on the inputs that are observable, either directly or indirectly, and the estimates use one or more observable quoted prices for orderly transactions in the markets that are not considered active.
	3	Discounted cash flows. Future cash flows are estimated based on both observable and unobservable inputs. Unobservable inputs include assumptions regarding future financial performance of the issuer, its risk profile, and economic performance of the industry and geographical jurisdiction where the issuer operates.
Investment property	3	The Bank engages professional independent appraisers to determine the fair value of its investment property by using the sales comparison method, and for items for which there are no market analogs, the income capitalization method is used. In the sales comparison method, the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of the property). The main parameter used in this valuation technique is the price per square meter of a property.
Derivative financial instruments	2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (observable foreign exchange rates at the end of the reporting period) and forward exchange rates discounted at a rate reflecting a credit risk from different counterparties. In addition, imbedded derivatives for indexed securities are recognized.
Buildings and land plots, assets held for sale	3	The Bank engages professional independent appraisers to determine the fair value of its buildings and land plots, assets held for sale by using the sales comparison method, and for items for which there are no market analogs, the income capitalization method is used. In the sales comparison method, the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of the property). The main parameter used in this valuation technique is the price per square meter of a property.

(in Hryvnias and in thousands, unless otherwise indicated)

The following table summarizes financial instruments recognized at fair value on initial recognition using a three level fair value hierarchy:

	30 September 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>				
Investment securities at fair value through profit and losses	-	376,029	-	376,029
Investment securities available for sale	5	20,970,777	120,766	21,091,548
Derivative financial assets	-	6,637	-	6,637
Investment property	-	-	55,789	55,789
Buildings and land plots	-	-	900,712	900,712
Assets held for sale	-	-	1,121,088	1,121,088
<b>Total</b>	<b>5</b>	<b>21,353,443</b>	<b>2,198,355</b>	<b>23,551,803</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	-	26,423	-	26,423
<b>Total</b>	<b>-</b>	<b>26,423</b>	<b>-</b>	<b>26,423</b>
	31 December 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>				
Investment securities available for sale	4	8,212,949	128,233	8,341,186
Derivative financial assets	-	14,707	-	14,707
Investment property	-	-	47,528	47,528
Buildings and land plots	-	-	912,117	912,117
Assets held for sale	-	-	970,165	970,165
<b>Total</b>	<b>4</b>	<b>8,227,656</b>	<b>2,058,043</b>	<b>10,285,703</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	-	37,898	-	37,898
<b>Total</b>	<b>-</b>	<b>37,898</b>	<b>-</b>	<b>37,898</b>

Investment securities available for sale included in Level 3 include a number of debt securities issued by Ukrainian companies which are listed but not quoted in an active market. Management applies valuation techniques which include significant adjustments to observable inputs. Therefore, these securities are classified as Level 3 instruments in these financial statements. Key inputs and assumptions used in the models for corporate bonds as at 30 September 2016 include, primarily, discount rate of 18.34% based on the effective yield of quoted bonds of issuers with similar credit risk.

*Movements in Level 3 financial instruments measured at fair value*

The following table shows reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	As at 1 January 2016	Total gains/ (losses) recognized in profit or loss	Additions	Sales	Repayment	Write down recognised in equity	Transfers from Level 1 and from Level 2	As at 30 September 2016
Investment securities available for sale	128,233	(7,467)	-	-	-	-	-	120,766
	As at 1 January 2015	Total gains/ (losses) recognized in profit or loss	Additions	Sales	Repayment	Write down recognised in equity	Transfers from Level 1 and from Level 2	As at 31 December 2015
Investment securities available for sale	13,228	-	-	-	-	(1,916)	116,921	128,233

(in Hryvnias and in thousands, unless otherwise indicated)

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	As at 30 September 2016		As at 31 December 2015	
	Carrying amount	Effect of potential alternative assumptions	Carrying amount	Effect of potential alternative assumptions
<b>Financial assets</b>				
Investment securities available for sale	120,766	(120,766)	128,233	(128,233)

Fair value of financial assets and liabilities not carried at fair value

The estimated fair values of financial assets and liabilities are determined using market prices, discounted cash flows and other appropriate valuation techniques and may not be indicative of the fair value of those instruments at the date these financial statements are authorized for issue. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Due from and due to other banks comprise short-term placements and borrowings. Due to short-term life of those financial instruments and corresponding actual interest rates to those prevailing money market interest rates for similar financial instruments, the carrying amounts of due from banks balances approximate their fair value. The same assumption was used for due to customers.

To determine the fair value, expected cash flows are discounted at market rates prevailing as at the reporting date for similar instruments.

Financial assets/ financial liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)
Loans to customers	3	Discounted cash flows. Future cash flows are estimated based on both observable and unobservable inputs. Unobservable inputs include assumptions regarding future financial performance of the issuer, its risk profile, and economic performance of the industry and geographical jurisdiction where the issuer operates. The most significant inputs included a discount rate reflecting the credit risk of counterparties.
Investments held to maturity	1	Quoted bid prices in an active market.
Due to the National Bank of Ukraine	3	Discounted cash flows. Future cash flows are estimated based on unobservable inputs.
Due to customers	3	Discounted cash flows. Future cash flows are estimated based on unobservable inputs.

	30 September 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	3,430,886	-	-	3,430,886
Due from credit institutions	-	-	12,828,617	12,828,617
Loans to customers	-	-	17,244,223	17,244,223
<b>Total</b>	<b>3,430,886</b>	<b>-</b>	<b>30,072,840</b>	<b>33,503,726</b>
<b>Liabilities for which fair values are disclosed</b>				
Due to the National Bank of Ukraine	-	-	598,473	598,473
Due to credit institutions	-	-	1,964,027	1,964,027
Due to customers	-	-	50,136,510	50,136,510
<b>Total</b>	<b>-</b>	<b>-</b>	<b>52,699,010</b>	<b>52,699,010</b>

(in Hryvnias and in thousands, unless otherwise indicated)

	31 December 2015			Total
	Level 1	Level 2	Level 3	
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	3,969,997	–	–	<b>3,969,997</b>
Due from credit institutions	–	–	9,623,078	<b>9,623,078</b>
Loans to customers	–	–	13,637,314	<b>13,637,314</b>
Investments held to maturity	3,023,728	–	–	<b>3,023,728</b>
<b>Total</b>	<b>6,993,725</b>	<b>–</b>	<b>23,260,392</b>	<b>30,254,117</b>
<b>Liabilities for which fair values are disclosed</b>				
Due to the National Bank of Ukraine	–	–	4,270,593	<b>4,270,593</b>
Due to credit institutions	–	–	5,002,007	<b>5,002,007</b>
Due to customers	–	–	27,375,474	<b>27,375,474</b>
<b>Total</b>	<b>–</b>	<b>–</b>	<b>36,648,074</b>	<b>36,648,074</b>

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

	30 September 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	3,430,886	3,430,886	3,969,997	3,969,997
Due from credit institutions	12,828,617	12,828,617	9,623,078	9,623,078
Loans to customers	17,244,223	18,614,761	14,029,078	13,637,314
Investments held to maturity	–	–	3,023,728	3,023,728
<b>Total assets</b>	<b>33,503,726</b>	<b>34,874,264</b>	<b>30,645,881</b>	<b>30,254,117</b>
<b>Financial liabilities</b>				
Due to the National Bank of Ukraine	598,473	598,473	4,284,258	4,270,593
Due to credit institutions	1,964,027	1,964,027	4,991,323	5,002,007
Due to customers	50,136,510	50,097,530	27,510,140	27,375,474
<b>Total liabilities</b>	<b>52,699,010</b>	<b>52,660,030</b>	<b>36,785,721</b>	<b>36,648,074</b>

(in Hryvnias and in thousands, unless otherwise indicated)

### 33. Analysis of assets and liabilities by maturities

The table below summarizes assets and liabilities according to the periods when they are expected to be recovered or settled. See Note 31 for the Bank's contractual undiscounted repayment obligations.

	30 September 2016				31 December 2015			
	Within one year	More than one year	Maturity undefined	Total	Within one year	More than one year	Maturity undefined	Total
Cash and cash equivalents	3,430,886	-	-	3,430,886	3,969,997	-	-	3,969,997
Precious metals	17,078	-	-	17,078	24,267	-	-	24,267
Derivative financial assets	6,637	-	-	6,637	14,707	-	-	14,707
Due from credit institutions	12,813,833	14,784	-	12,828,617	9,606,784	16,294	-	9,623,078
Loans to customers*	11,225,895	6,018,328	-	17,244,223	8,261,694	5,767,384	-	14,029,078
Investment securities at fair value through profit and losses	376,029	-	-	376,029	-	-	-	-
Investment securities available for sale	5,133,613	15,957,935	-	21,091,548	1,312,567	7,028,619	-	8,341,186
Investments held to maturity	-	-	-	-	3,023,728	-	-	3,023,728
Investment property	-	-	55,789	55,789	-	-	47,528	47,528
Property and equipment and intangible assets	-	-	1,329,938	1,329,938	-	-	1,145,495	1,145,495
Assets held for sale	1,121,088	-	-	1,121,088	970,165	-	-	970,165
Current tax assets	-	4,921	-	4,921	-	4,921	-	4,921
Deferred tax assets	-	44,726	-	44,726	-	79,358	-	79,358
Other assets	357,258	-	-	357,258	281,832	-	-	281,832
<b>Total</b>	<b>34,482,317</b>	<b>22,040,694</b>	<b>1,385,727</b>	<b>57,908,738</b>	<b>27,465,741</b>	<b>12,896,576</b>	<b>1,193,023</b>	<b>41,555,340</b>
Due to the National Bank of Ukraine	169,923	428,550	-	598,473	3,739,641	544,617	-	4,284,258
Due to credit institutions	1,864,170	99,857	-	1,964,027	4,901,164	90,159	-	4,991,323
Derivative financial liabilities	26,423	-	-	26,423	37,898	-	-	37,898
Due to customers	49,808,097	328,413	-	50,136,510	27,226,074	284,066	-	27,510,140
Provisions for guarantees and commitments	111,112	-	-	111,112	2,461	-	-	2,461
Other liabilities	311,607	-	-	311,607	436,614	-	-	436,614
<b>Total</b>	<b>52,291,332</b>	<b>856,820</b>	<b>-</b>	<b>53,148,152</b>	<b>36,343,852</b>	<b>918,842</b>	<b>-</b>	<b>37,262,694</b>
<b>Net amount</b>	<b>(17,809,015)</b>	<b>21,183,874</b>	<b>1,385,727</b>	<b>4,760,586</b>	<b>(8,878,111)</b>	<b>11,977,734</b>	<b>1,193,023</b>	<b>4,292,646</b>

\* As at 30 September 2016, loans to customers repayable within one year include UAH 431,653 thousand of the overdue loans (2015: UAH 438,605 thousand).

The Bank's management believes that negative liquidity gap (liquidity gap between financial assets and financial liabilities repayable within one year as at 30 September 2016 amounted to UAH 19,018,830 thousand) that arose as at 30 September 2016 is under control and does not threaten the Bank's ability to settle its liabilities in full and in a timely manner. Thus, the Bank has an access to secondary reserve of liquid funds represented by:

- ▶ Unencumbered securities – Ukrainian state bonds in the amount of UAH 14,025,622 thousand, bonds of the State Mortgage Institution in the amount of UAH 204,426 thousand, corporate bonds in portfolio of bank in the amount of UAH 818,451 thousand, that have a high degree of liquidity and were included in the category of repayable after one year. Liquid funds may be received either through the sale of the said securities or attraction of a refinancing borrowing from the National Bank of Ukraine with the securities used as a collateral. As at 30 September 2016, the fair value of securities that may be considered as a cover for the cumulative liquidity gap in the category of repayable within one year amounted to UAH 15,048,499 thousand.
- ▶ Stable balances on current customer accounts determined on the basis of statistical analysis of fluctuations in current customer account balances. As at 30 September 2016, stable balances on current accounts were estimated to be equal to UAH 5,722,906 thousand. Based on the going concern assumption, actual maturity of the stable balances may be considered as undefined.

Thus, the negative liquidity gap that arose as at 30 September 2016 in the amount of UAH 19,018,830 thousand based on the estimated maturities of the abovementioned financial instruments has changed to a positive liquidity gap and may be estimated in the amount of UAH 1,752,575 thousand.

(in Hryvnias and in thousands, unless otherwise indicated)

### 34. Related party transactions

The Bank grants loans and advances to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability, directly or indirectly, through one or more intermediaries to control the other party or exercise significant influence over the party when making financial and operational decisions. Terms and conditions of transactions with related parties are established on a daily basis and may differ from the market terms.

As at 30 September 2016 the Bank was by 94.94% a state-owned bank, under control of the Ministry of Finance of Ukraine (2015: 94.94%). Correspondingly, transactions and balances with related parties comprise transactions with government, government-related entities (both directly and indirectly), key management personnel and entities, if any, that are controlled, jointly controlled, or significantly influenced by them.

A government-related entity is an entity that is controlled, jointly controlled, or significantly influenced by the government.

Government refers to government agencies and similar bodies, whether local, national, or international.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely their legal form. The balances and transactions with related parties as at end of period and relevant amounts of profit and losses for period are as follows:

	30 September 2016			31 December 2015		
	State controlled entities	Other related parties	Key management personnel	State controlled entities	Other related parties	Key management personnel
<b>Assets</b>						
Current accounts with the National Bank of Ukraine	2,675,229	-	-	3,088,722	-	-
Current accounts with other credit institutions	39,793	-	-	132,274	-	-
Due from credit institutions	14,886	-	-	16,397	-	-
Loans, gross	10,331,393	15,062	-	7,888,113	12,825	-
Less: allowance for impairment	(114,109)	(174)	-	(94,400)	(711)	-
Investment securities at fair value through profit and losses	376,029	-	-	-	-	-
Investment securities available for sale	20,983,871	-	-	8,242,442	-	-
Investments held to maturity	-	-	-	3,023,728	-	-
<b>Liabilities</b>						
Due to the National Bank of Ukraine	598,473	-	-	4,284,258	-	-
Due to credit institutions	147,210	75,776	-	2,977,611	-	-
Due to customers – deposits	13,731,285	64,330	383	3,397,802	40,284	200
Due to customers – current accounts	14,432,536	32,570	2,170	4,985,982	25,645	2,385
Commitments and guarantees issued	3,992,575	2,343	-	3,904,026	402	-
Interest income on loans	754,339	480	-	912,015	396	-
Interest income on investment securities available for sale	1,274,699	-	-	1,042,999	-	-
Interest income on investments held to maturity	837,633	-	-	124,382	-	-
Interest income on investment securities at fair value through profit and losses	842	-	-	-	-	-
Interest expense on due to the National Bank of Ukraine	127,748	-	-	389,379	-	-
Interest expense on due to credit institutions	88,685	40	-	215,901	-	-
Interest expense on due to customers	1,638,183	5,111	82	337,100	3,854	44
Allowance for impairment of loans: (provision)/recovery	(18,997)	(174)	-	943,400	-	-
Net gains on investment securities available for sale	(1,803)	-	-	2,562	-	-
Other operating expense	66,121	-	-	68,854	-	-

**Concentration risk** – Concentration risk is determined by the Bank as the risk of possible losses due to concentration of risk in specific instruments, operations, and industries.

*(in Hryvnias and in thousands, unless otherwise indicated)*

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" is the bank specific activities of which are related to a significant scale of operations with state-owned companies, resulting in the significant concentration of credit and investment risks in relation to certain counterparties and groups of related counterparties and industries.

As at 30 September 2016, 59% of assets and 55% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities.

As at 31 December 2015, 54% of assets and 42% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities.

The Bank manages concentration risk in its loan and investment portfolios by setting limits for certain counterparties and groups of counterparties.

Remuneration to key management personnel comprises the following:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Salaries and bonuses	21,982	11,151
Charges on payroll	-	2
<b>Total remuneration to key management personnel</b>	<b>21,982</b>	<b>11,153</b>

### 35. Capital adequacy

The Bank defines as capital those items defined by statutory regulations of Ukraine and the Basel Accord as capital for credit institutions. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered, and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The regulator, the National Bank of Ukraine, sets and monitors capital requirements for the Bank as a whole. The Bank as a whole and its individual banking operations are directly supervised by the local regulator.

Under the current capital requirements set by the National Bank of Ukraine, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 30 September 2016 and 31 December 2015, the minimum level required by the National Bank of Ukraine was 10%. The Bank was in compliance with the statutory capital ratios during the periods ended 30 September 2016 and 31 December 2015.

The Bank is also subject to minimum capital requirements under borrowing arrangements established by covenants, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord of 1988, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

As at 30 September 2016 and 31 December 2015, the minimum level required by Basel I was 8% and the minimum Tier 1 capital adequacy ratio was 4%.

The following table shows the composition of the capital position calculated in accordance with the requirements of Basel I as at 30 September 2016 and 31 December 2015:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Tier 1 capital	5,634,429	5,517,800
Tier 2 capital	(873,843)	(1,225,154)
<b>Total capital</b>	<b>4,760,586</b>	<b>4,292,646</b>
<b>Risk weighted assets</b>	<b>23,330,824</b>	<b>18,190,801</b>
Tier 1 capital ratio	24.15%	30.33%
Total capital ratio	20.40%	23.60%

As at 30 September 2016, the Bank was in compliance with the capital ratio calculated in accordance with the Basel Accord.

### 36. Subsequent events

Subsequent to 30 September 2016, there were no events that would have an impact on these interim financial statements and would require disclosure.