Translation from Ukrainian original

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK “UKRGASBANK”

Financial statements

for the year ended 31 December 2017
Together with independent auditor’s report

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Building a better working world

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Independent auditor's report

To the Shareholders and Supervisory Board of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK "UKRGASBANK"

Opinion

We have audited the financial statements of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" (the Bank), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans to customers	
The amount of allowance for impairment of loans to customers is a key area of the Bank's management judgment. Determination of the evidence of impairment and determination of the recoverable amount are the processes that involve high level of subjective judgment, use of assumptions and analysis of different factors, including borrower's financial position, expected future cash flows and value of collateral. Use of different models and assumptions may materially affect the amount of allowance. Due to the substantial balances of loans to customers, which in aggregate amount to 49% of the Bank's total assets as at 31 December 2017 and significant judgments used by the management, estimation of allowance for impairment was the key audit matter.	Our audit procedures included analysis of the methodology on estimation of allowance for impairment of loans to customers and assessment and testing of the design and operating effectiveness of controls over the processes of impairment identification and estimation. As part of the audit procedures, we analysed assumptions and tested the accuracy of inputs used by the Bank in its assessment of impairment of loans to customers on a collective basis, such as loss rates, probability of default and loss given default rates. We analysed the sequence of the Bank's management judgments used in assessment of the statistical information on the losses incurred, as well as conformity of the applied impairment model with general practice and our professional judgment. With regard to assessment of impairment of loans to customers on an individual basis, we performed the analysis of the Bank's management expectations on future cash flows, including the cash flows that may result from foreclosure of collateral, based on our professional judgment and information available in the market. We assessed the information on allowance for impairment of loans to customers disclosed in Notes 10 and 31 to the financial statements.
Valuation of buildings and land plots, investment property, property held for sale and other property	
We considered this matter as key audit matter due to the magnitude of the amounts involved and complex and subjective judgments. The Bank's aggregate value of buildings and land plots, investment property, property held for sale and other property represented 3% of the Bank's total assets at 31 December 2017. The valuation of these assets involves application of unobservable inputs and assumptions. Changes in these inputs and assumptions may have a significant impact on the valuation results and, accordingly, on the Bank's reported equity and profits.	Our audit procedures in respect of valuation of buildings and land plots, investment property, property held for sale and other property included evaluation of competence and objectivity of external specialists involved, inquiries of the Bank management about the significant unobservable inputs and assumptions used, comparison of inputs to available market data and other information. We involved our real estate valuation specialists to evaluate the methodology and assumptions used. We assessed the Bank's disclosures in relation to the valuation of buildings and land plots, investment property, property held for sale and other property.

Information on valuation of buildings and land plots, investment property, property held for sale and other property is included in Note 33 to the financial statements.

Information other than the financial statements and auditor's report thereon

Other information consists of the information included in the Annual Report of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK "UKRGASBANK", other than the financial statements and our auditor's report thereon. Management is responsible for the other information. Annual Report of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young Audit Services LLC

Kyiv, Ukraine

10 April 2018

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

O.M. Svistich
General Director

L.S. Movsesian
Auditor's certificate Series B No. 0198
valid till 24 December 2019

STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

(in Hryvnias and in thousands)

	Notes	*31 December 2017*	*31 December 2016 (reclassified)*
Assets			
Cash and cash equivalents	7	7,264,287	2,482,132
Precious metals		7,958	14,112
Due from credit institutions	8	3,739,554	6,521,927
Derivative financial assets	9	910	9,420
Loans to customers	10	33,646,433	20,351,584
Trading securities	11	315,094	386,454
Investments available for sale	12	20,576,663	19,996,757
Investments held to maturity	13	–	1,000,657
Investment property	14	348,834	50,814
Property and equipment and intangible assets	15	1,736,061	1,509,943
Assets held for sale	16	60,508	1,129,309
Other property	17	740,764	328
Current income tax assets		4,921	4,921
Deferred income tax assets	18	187,584	82,561
Other assets	20	583,656	365,014
Total assets		**69,213,227**	**53,905,933**
Liabilities			
Due to the National Bank of Ukraine	21	414,104	574,997
Due to credit institutions	22	1,946,930	1,105,700
Derivative financial liabilities	9	3,775	16,300
Due to customers	23	60,646,118	46,180,966
Provisions for guarantees and commitments	19	209,392	60,504
Other liabilities	20	367,595	669,560
Total liabilities		**63,587,914**	**48,608,027**
Equity			
Share capital	24	13,837,000	13,837,000
Acquired title of ownership to shares		(518,439)	(518,439)
Result from transactions with shareholders		(1,102,304)	(1,102,304)
Additional paid-in capital		135,942	135,942
Other reserves	24	278,424	593,415
Accumulated deficit		(7,005,310)	(7,647,708)
Total equity		**5,625,313**	**5,297,906**
Total equity and liabilities		**69,213,227**	**53,905,933**

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

Україна * Публічне акціонерне товариство * м. Київ * Акціонерний банк "Укргазбанк" Ідентифікаційний код 23697280

Kyrylo Shevchenko Chairman of the Management Board

Nataliia Khrustalova Chief Accountant

10 April 2018

Makhkamova
239-28-36

Notes on the pages from 6 to 54 form an integral part of these annual financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

(in Hryvnias and in thousands)

	Notes	*31 December 2017*	*31 December 2016*
Interest income			
Loans to customers		4,146,481	2,644,388
Investments available for sale		2,089,753	1,840,611
Deposit certificates of the National Bank of Ukraine		531,359	878,266
Due from credit institutions		84,311	106,804
		6,851,904	**5,470,069**
Trading securities		23,016	7,354
		6,874,920	**5,477,423**
Interest expense			
Due to the National Bank of Ukraine		(73,803)	(183,215)
Due to customers		(4,419,920)	(4,435,057)
Due to credit institutions		(22,916)	(135,303)
		(4,516,639)	**(4,753,575)**
Net interest income, before allowance for impairment of loans		**2,358,281**	**723,848**
Change in allowance for impairment of loans	8, 10	(692,893)	567,363
Net interest income, after allowance for impairment of loans		**1,665,388**	**1,291,211**
Losses on initial recognition of financial assets		(6,706)	(775,604)
Net fee and commission income	26	551,700	342,720
Net gains/(losses) on trading securities	27	5,116	(406)
Net gains on investment securities available for sale	28	51,602	82,686
Net gains on foreign exchange operations and precious metals	29	71,558	326,465
Result on operations with derivative financial instruments		153,560	207,870
Net gains on investment property		14,705	9,255
Other income	30	171,821	136,885
Non-interest income		**1,013,356**	**329,871**
Staff costs	31	(912,733)	(581,076)
Other operating expense	31	(858,037)	(631,815)
Depreciation and amortization	15	(178,460)	(106,915)
Change in allowance for impairment of other assets and other provisions	19	(205,117)	(35,396)
Non-interest expense		**(2,154,347)**	**(1,355,202)**
Profit before income tax		**524,397**	**265,880**
Income tax benefit	18	103,415	23,115
Net profit		**627,812**	**288,995**

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

	Notes	*31 December 2017*	*31 December 2016*
Net profit		**627,812**	**288,995**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment		(8,935)	110,629
Income tax related to revaluation of property and equipment		1,608	(19,913)
		(7,327)	**90,716**
Items that may be reclassified subsequently to profit or loss			
Unrealized (losses)/gains on investments available for sale		(344,680)	597,695
Realized profits on investments available for sale		51,602	27,854
		(293,078)	**625,549**
Other comprehensive (loss)/income, after income tax		**(300,405)**	**716,265**
Total comprehensive income		**327,407**	**1,005,260**
Weighted average number of shares (in thousands)		13,837,000	13,837,000
Basic and diluted net earnings per share (in UAH)		0.05	0.02

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

Kyrylo Shevchenko — Chairman of the Management Board

Nataliia Khrustalova — Chief Accountant

10 April 2018

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Notes on the pages from 6 to 54 form an integral part of these annual financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

(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
As at 31 December 2015		**13,837,000**	**(518,439)**	**(1,102,304)**	**135,942**	**(122,850)**	**(7,936,703)**	**4,292,646**
Total comprehensive income for the year		–	–	–	–	716,265	288,995	**1,005,260**
As at 31 December 2016		**13,837,000**	**(518,439)**	**(1,102,304)**	**135,942**	**593,415**	**(7,647,708)**	**5,297,906**
Total comprehensive income for the year	24	–	–	–	–	(300,405)	627,812	**327,407**
Transfers on disposal of assets		–	–	–	–	(14,586)	14,586	**–**
As at 31 December 2017		**13,837,000**	**(518,439)**	**(1,102,304)**	**135,942**	**278,424**	**(7,005,310)**	**5,625,313**

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

Kyrylo Shevchenko Chairman of the Management Board

Nataliia Khrustalova Chief Accountant

10 April 2018

Makhkamova
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STATEMENT OF CASH FLOWS (the direct method)

for the year ended 31 December 2017

(in Hryvnias and in thousands)

	Notes	*31 December 2017*	*31 December 2016 (reclassified)*
Cash flows from operating activities			
Interest received		6,602,820	4,913,303
Interest paid		(4,455,596)	(4,685,853)
Fees and commissions received		689,032	443,974
Fees and commissions paid		(168,168)	(107,714)
Net result on foreign exchange operations (realized)	29	12,036	8,996
Result on operations with derivative financial instruments		149,545	191,559
Other income received		72,183	116,663
Staff costs		(876,299)	(564,591)
Other operating expense		(788,345)	(592,244)
Trading result on investments in securities	27	630	546
Cash flows from operating activities before changes in operating assets and liabilities		**1,237,838**	**(275,361)**
Net decrease/(increase) in operating assets			
Precious metals		9,167	16,617
Due from credit institutions		3,553,571	3,728,649
Loans to customers		(13,300,375)	(5,677,536)
Other assets		(222,817)	99,652
Net (decrease)/increase in operating liabilities			
Due to credit institutions		657,136	(4,443,189)
Due to customers		12,422,509	16,929,152
Other liabilities		–	171,359
Net cash generated from operating activities		**4,357,029**	**10,549,343**
Cash flows from investing activities			
Acquisition of investment securities and investments held to maturity		(115,214,430)	(185,595,469)
Proceeds on sale and repayment of investment securities and investments held to maturity		115,807,145	177,374,794
Acquisition of property and equipment	15	(354,394)	(360,697)
Proceeds on disposal of property and equipment and intangible assets		122,552	1,637
Proceeds on investment property	14	13,980	8,648
Proceeds on disposal of assets held for sale	16, 30	123,078	100,251
Net cash generated from/(used in) investing activities		**497,931**	**(8,470,836)**
Cash flows from financing activities			
Proceeds of borrowed funds from credit institutions		80,939	120,894
Repayment on borrowed funds from the National Bank of Ukraine		(180,000)	(3,736,600)
Net cash generated from financing activities	37	**(99,061)**	**(3,615,706)**
Effect of exchange rate changes on cash and cash equivalents		26,256	49,334
Net increase/(decrease) in cash and cash equivalents		**4,782,155**	**(1,487,865)**
Cash and cash equivalents, at the beginning of the period		**2,482,132**	**3,969,997**
Cash and cash equivalents, at the end of the period	7	**7,264,287**	**2,482,132**

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

Kyrylo Shevchenko Chairman of the Management Board

Nataliia Khrustalova Chief Accountant

10 April 2018

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Notes on the pages from 6 to 54 form an integral part of these annual financial statements

(in Hryvnias and in thousands)

1. General information

Organization structure and operations

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" (the "Bank") was established on 21 July 1993 based on the merger of several commercial banks. In March 2009, on the extraordinary General meeting the shareholders of the Bank applied to the Government of Ukraine with the offer to take state control over the Bank's share capital. In June 2009, in reply for the shareholders appeal the Government of Ukraine agreed to obtain control over the Bank by receiving majority stake of share capital.

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 31 December 2017, the Bank's network consisted of 243 registered outlets (including 243 operating outlets) (2016: 245 outlets, including 231 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 31 December 2017 and 2016, the Bank's issued shares were held by the following shareholders:

Shareholder	*31 December 2017, %*	*31 December 2016, %*
The Ministry of Finance of Ukraine	94.94	94.94
LLC "BKS INVEST"	0.73	–
Other	4.33	5.06
Total	**100.00**	**100.00**

As at 31 December 2017 and 2016, the Bank's ultimate controlling party was the Ukrainian government represented by the Ministry of Finance of Ukraine.

These annual financial statements were authorized for issue and signed by the Bank's management on 10 April 2018.

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.

Following the significant deterioration in 2014 and 2016 the current political and economic situation in Ukraine remains unstable. The Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country.

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

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

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

(in Hryvnias and in thousands)

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 that are carried at revalued amount, investment property that is valued at fair value, assets held for sale, which are valued at the lower of two – the carrying amount or fair value less cost to sell, and certain financial instruments that are measured at fair value at the end of year, as explained in the accounting policies below.

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 of leases 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.

Reclassification

While preparing 2017 financial statements, the management of the Bank made a decision on the presentation of property received by the Bank as a result of foreclosure on a collateral in a separate line "Other property" in the statement of financial position. Information as at 31 December 2016 has been reclassified to conform to the presentation format in 2017.

	As previously reported	*Reclassification*	*As reclassified*
Statement of financial position			
Other property	–	328	328
Other assets	365,342	(328)	365,014

While preparing 2017 financial statements, the management of the Bank made a decision on a separate presentation of interest income from deposit certificates of the National Bank of Ukraine. Information for 2016 was reclassified accordingly.

	As previously reported	*Reclassification*	*As reclassified*
Statement of profit or loss and other comprehensive income			
Investments available for sale	1,880,587	(39,976)	1,840,611
Deposit certificates of the National Bank of Ukraine	–	878,266	878,266
Investments held to maturity	838,290	(838,290)	–

(in Hryvnias and in thousands)

While preparing 2017 financial statements, the Bank has changed its approach to presentation the trading result on investments in securities in the statement of cash flows. Information for 2016 was reclassified accordingly.

	As previously reported	*Reclassification*	*As reclassified*
Statement of cash flows			
Cash flows from operating activities			
Trading result on investments in securities	28,399	(27,853)	546
Cash flows from investing activities			
Proceeds on sale and repayment of investment securities and investments held to maturity	177,346,941	27,853	177,374,794

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

Annual 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:

Currency	*31 December 2017*	*31 December 2016*
UAH/USD	28.0672	27.1909
UAH/EUR	33.4954	28.4226

(in Hryvnias and in thousands)

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, except for financial assets measured at fair value through profit or loss, expenses which are recognized in profit or loss. The Bank determines the classification of its financial assets upon initial recognition and subsequently may reclassify financial assets in certain cases as described below.

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 investments 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.

Government grants in the form of non-financial assets from the public authorities are recognized at net present value of future cash flows related to interest income compensation. Loss on initial recognition of preferential loans is presented on a net basis of revenue recognition of government grants in the profit or loss and other comprehensive income.

Further accounting for receivables for government grants are carried at amortized cost using the effective interest method and are subject to impairment with subsequent recognition of income and expenses in the profit or loss and other comprehensive income when the instrument is derecognised or if it was impaired or amortized.

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.

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 comprehensive income 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, 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, including the overnight deposit certificates issued by the National Bank of Ukraine.

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. Results of translation differences on transactions with precious metals are presented in article "Net gains from operations with foreign currency and precious metals" of Statements of profit or loss and other comprehensive income.

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)

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.

Financial lease is a lease, whereby the lessee transfers substantially all the risks and rewards of possession related to ownership.

At the beginning of the lease term, the Bank as a lessee recognizes a financial lease as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the beginning of the lease, or (if they are less than fair value) at the present value of the minimum lease payments, which is determined on start of lease

As a lessor, the Bank recognizes assets held under financial lease agreements in the statement of financial position as a loan issued for an amount equal to net investment in the lease. The lease payment to be received is considered as the repayment of the principal amount of the debt and financial income to provide compensation and remuneration to the lessor for its investments and services.

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.

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.

(in Hryvnias and in thousands)

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.

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 change of the allowance for impairment.

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.

Investments 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 reporting period, 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.

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.

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.

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.

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:

	Years
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.

Events or circumstances may extend the period to complete the sale beyond one year. Extending the period to complete the sale does not interfere with assets classified as held for sale if the delay was caused by events or circumstances that are beyond the control of the Bank, and if there is sufficient evidence that the Bank continues to carry out a plan to sell the asset.

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.

Other property

The Bank recognizes as other property non-current assets that have been acquired by foreclosure of the collateral and are held for the purpose of sale. These assets do not conform the criteria for recognition as assets held for sale and cannot be recognized as non-current assets used in operating activities of the Bank or investment property. These assets are measured at the lower of two – cost or net realizable value.

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)

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.

Share capital and other reserves

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".

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 calculating the effective interest rate, the Bank considers all paid and/or received fees, 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.

Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Bank has provided the information for both the current and the comparative period in Note 37.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Bank's financial position and performance as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect the Bank's financial statements.

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

Adoption of new and revised IFRS

As at 31 December 2017 the following new standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's annual financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortized cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The Bank expects to continue measuring at fair value all financial assets currently held at fair value.

Trading debt and equity securities will continue to be classified as FVPL. Debt securities currently classified as available-for-sale are expected to be measured at FVOCI under IFRS 9 as the Bank expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. The vast majority of Loans to customers are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost, except for a pool of loans with a carrying value of UAH 23,258 thousand, which will be measured at FVOCI, and a loan with a carrying value of UAH 1,332 thousand, which will be measured at FVPL.

(b) Impairment

IFRS 9 requires the Bank to record an allowance for expected credit losses on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the expected credit losses over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime expected credit losses.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Bank's income will not be impacted by the adoption of this standard.

The Bank currently does not expect a material effect from initial application of IFRS 15.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Bank does not expect a material effect from application of these amendments.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments do not effect on the financial position and results of the Bank.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank does not expect from application of this standard on the financial position and results of the Bank.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. The Bank does not expect a material effect from application of these amendments.

Annual improvements 2014-2016 cycle

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Bank.

IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018. The Bank does not expect a material effect from application of these amendments.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. There is no effect on the Bank from these amendments.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Bank's current practice is in line with the Interpretation, the Bank does not expect any effect on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements are applied for annual reporting periods beginning on or after 1 January 2019 and include:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation

These amendments clarify whether the previously held interest in a joint operation (that is a business as defined in IFRS 3) should be remeasured to fair value, when:

- A party to a joint operation obtains control over the joint operation (IFRS 3);
- A party that participates in (but does not have joint control over a joint operation) obtains joint control over the joint operation (IFRS 11).

The Bank does not expect any effect on its financial statements.

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

These amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalization

These amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Earlier application is permitted and should be disclosed. The Bank does not expect any effect on its financial statements.

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.

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.

(in Hryvnias and in thousands)

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.

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 comparative approach to evaluation. The comparative approach to evaluation 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 comparative approach to evaluation. comparative approach to evaluation 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.

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 (hereinafter – "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.

(in Hryvnias and in thousands)

During 2017, the Bank received revenue from the loan transactions with a single client in the amount of UAH 1,018,769 thousand. During 2016, the Bank received revenue from the loan transactions with a single client in the amount of UAH 671,112 thousand.

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

31 December 2017	*Legal entities (corporate banking)*	*SMEs*	*Individuals (retail banking)*	*Financial institutions*	*Asset management and other*	*Total*
Income						
Interest income	3,700,687	191,816	253,973	84,311	2,644,133	**6,874,920**
Fee and commission income	210,418	108,627	363,115	23,153	14,555	**719,868**
Net gains on investments available for sale	–	–	–	–	51,602	**51,602**
Gains from trading securities	–	–	–	–	5,116	**5,116**
Gains on foreign exchange operations and precious metals	–	–	3,687	–	67,871	**71,558**
Result on operations with derivative financial instruments	–	–	–	–	153,560	**153,560**
Net gains on investment property	–	–	–	–	14,705	**14,705**
Other income	18,635	24,614	120,027	4,233	4,312	**171,821**
Total incomes	**3,929,740**	**325,057**	**740,802**	**111,697**	**2,955,854**	**8,063,150**
Expense						
Interest expense	(2,854,908)	(203,000)	(1,370,085)	(88,646)	–	**(4,516,639)**
Fee and commission expense	(9,005)	(9)	(119,775)	(39,379)	–	**(168,168)**
Change in allowance for impairment of loans	(789,709)	32,036	50,035	14,745	–	**(692,893)**
Losses on initial recognition of financial assets	–	–	(6,706)	–	–	**(6,706)**
Staff costs	(242,947)	(128,272)	(480,654)	(14,862)	(45,998)	**(912,733)**
Depreciation and amortization	(35,106)	(17,708)	(115,256)	(3,472)	(6,918)	**(178,460)**
Change in allowance for impairment of other assets and other provisions	(117,992)	(2,390)	(9,075)	(410)	(75,250)	**(205,117)**
Other operating expense	(224,450)	(60,623)	(524,608)	(10,715)	(37,641)	**(858,037)**
Total expenses	**(4,274,117)**	**(379,966)**	**(2,576,124)**	**(142,739)**	**(165,807)**	**(7,538,753)**
Segment results	**(344,377)**	**(54,909)**	**(1,835,322)**	**(31,042)**	**2,790,047**	**524,397**
Income tax					103,415	**103,415**
Net profit					**2,893,462**	**627,812**
Segment assets	32,693,417	3,210,704	8,194,966	4,030,367	21,083,773	**69,213,227**
Segment liabilities	(39,749,593)	(4,575,395)	(16,881,915)	(1,956,707)	(424,304)	**(63,587,914)**
Other segment information						
Capital expenditures	69,394	32,854	227,878	7,430	4,882	**342,438**

(in Hryvnias and in thousands)

31 December 2016	*Legal entities (corporate banking)*	*SMEs*	*Individuals (retail banking)*	*Financial institutions*	*Asset management and other*	*Total*
Income						
Interest income	2,295,011	101,914	244,738	106,804	2,728,956	**5,477,423**
Fee and commission income	118,165	73,373	237,701	10,391	10,803	**450,433**
Change in allowance for impairment of loans	509,959	(22,461)	93,073	(13,208)	–	**567,363**
Net gains on investments available for sale	–	–	–	–	82,686	**82,686**
Gains on foreign exchange operations and precious metals	–	–	–	–	326,465	**326,465**
Result on operations with derivative financial instruments	–	–	–	–	207,870	**207,870**
Net profit on investment property	–	–	–	–	9,255	**9,255**
Other income	3,729	2,548	28,188	100	102,320	**136,885**
Total incomes	**2,926,864**	**155,374**	**603,700**	**104,087**	**3,468,355**	**7,258,380**
Expense						
Interest expense	(2,953,905)	(116,171)	(1,366,949)	(316,156)	(394)	**(4,753,575)**
Fee and commission expense	(2,343)	–	(83,592)	(16,938)	(4,840)	**(107,713)**
Losses on initial recognition of financial assets	(763,828)	–	(11,776)	–	–	**(775,604)**
Staff costs	(141,074)	(76,748)	(333,022)	(10,881)	(19,351)	**(581,076)**
Depreciation and amortization	(23,775)	(11,925)	(67,053)	(2,304)	(1,858)	**(106,915)**
Change in allowance for impairment of other assets and other provisions	(57,736)	(382)	(3,418)	–	26,140	**(35,396)**
Other operating expense	(215,139)	(35,999)	(357,388)	(5,880)	(17,409)	**(631,815)**
Net losses from trading securities	–	–	–	–	(406)	**(406)**
Total expenses	**(4,157,800)**	**(241,225)**	**(2,223,198)**	**(352,159)**	**(18,118)**	**(6,992,500)**
Segment results	**(1,230,936)**	**(85,851)**	**(1,619,498)**	**(248,072)**	**3,450,237**	**265,880**
Income tax benefit					23,115	**23,115**
Net profit					**3,473,352**	**288,995**
Segment assets	19,722,849	1,497,937	4,521,398	6,671,904	21,491,845	**53,905,933**
Segment liabilities	(30,582,538)	(2,309,978)	(13,986,339)	(1,125,117)	(604,055)	**(48,608,027)**
Other segment information						
Capital expenditures	89,053	42,197	213,452	9,590	6,302	**360,594**

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2017	*31 December 2016*
Deposit certificates of the National Bank of Ukraine (overnight)	4,504,624	–
Current accounts with the National Bank of Ukraine	1,242,025	1,178,348
Cash on hand	997,590	991,244
Current accounts with other credit institutions	520,048	312,540
Cash and cash equivalents	**7,264,287**	**2,482,132**

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

As at 31 December 2017, obligatory reserves estimated in accordance with the requirements of the National Bank of Ukraine amounted to UAH 2,941,682 thousand (2016: UAH 2,313,708 thousand).

As at 31 December 2017 and 2016, the Bank complied with the requirements of the National Bank of Ukraine regarding obligatory reserve amounts.

(in Hryvnias and in thousands)

As at 31 December 2017, the Bank did not maintain the amount of obligatory reserve at the current account with the National Bank of Ukraine (2016: UAH 925,483 thousand) due to change in the requirements of regulatory acts of the National Bank of Ukraine regarding the formation and storage of obligatory reserves. Since 25 December 2017, according to decision of the Board of the National Bank of Ukraine, the ratio of maintenance of obligatory reserves during the period changed from 40% to 0%.

8. Due from credit institutions

Due from credit institutions comprise:

	31 December 2017	***31 December 2016***
Current accounts with other credit institutions	3,218,015	5,176,174
Other amounts due from credit institutions	249,842	543,710
Term deposits with maturities over 90 days or overdue	736,005	753,249
Reverse repurchase agreements	280,469	807,369
	4,484,331	**7,280,502**
Less: allowance for impairment	(744,777)	(758,575)
Due from credit institutions	**3,739,554**	**6,521,927**

As at 31 December 2017, the overdue due from credit institutions equals in the amount of UAH 734,959 thousand (2016: UAH 735,189 thousand).

As at 31 December 2017, due from credit institutions in the amount of UAH 3,109,935 thousand (or 69.35% of the total amount of due from credit institution) was placed with three banks (2016: UAH 3,971,709 thousand with one banks, which was 54.55% of the total amount of due from credit institution).

As at 31 December 2017, reverse repurchase agreements were pledged as collateral of government bonds with fair value equals in the amount of UAH 312,737 thousand (2016: UAH 846,803 thousand).

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 payments cards.

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

	2017	***2016***
1 January	**758,575**	**744,441**
(Reversal)/charge	(14,745)	13,208
Amounts written off	–	(9,764)
Translation difference	947	10,690
31 December	**744,777**	**758,575**

9. Derivative financial 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 not exceeding one month.

The Bank concludes contracts for the purchase of derivative financial instruments for hedging purposes, but these instruments do not qualify for hedge accounting.

(in Hryvnias and in thousands)

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

	31 December 2017				*31 December 2016*			
	Notional amount		*Fair value*		*Notional amount*		*Fair value*	
	Assets	*Liabilities*	*Assets*	*Liabilities*	*Assets*	*Liabilities*	*Assets*	*Liabilities*
Foreign exchange contracts								
Swaps/forwards	1,291,357	(1,294,240)	869	(3,752)	579,885	(571,383)	9,012	(510)
Spots	71,220	(71,202)	41	(23)	1,711,273	(1,726,655)	408	(15,790)
Total derivative assets/(liabilities)			**910**	**(3,775)**			**9,420**	**(16,300)**

10. Loans to customers

Loans to customers comprise:

	31 December 2017	*31 December 2016*
Legal entities	34,097,305	21,548,018
SMEs	2,048,098	1,137,956
Individuals	5,907,660	5,400,467
Gross loans to customers	**42,053,063**	**28,086,441**
Less: allowance for impairment	(8,406,630)	(7,734,857)
Loans to customers	**33,646,433**	**20,351,584**

As at 31 December 2017, the total amount of restructured loans that not overdue amounted to UAH 1,641,731 thousand (2016: UAH 10,382,513 thousand). As at 31 December 2017, there were no restructured loans to strategic state entities as determined in the laws of Ukraine (2016: UAH 9,330,875 thousand).

During 2017, the Bank has performed foreclosure of collateral for repayment of loans to customers. The amount of collateral, which was used for repayment of loans to customers was as follows:

- UAH 5,628 thousand were repaid by assets held for sale (2016: UAH 239,818 thousand);
- UAH 66,350 thousand were repaid by property and equipment and intangible assets (2016: nil);
- UAH 217,206 thousand were repaid by investment property (2016: nil);
- UAH 15,736 thousand were repaid by other property (2016: nil).

Analysis of the credit quality of loans to customers is disclosed in Note 32.

As at 31 December 2017 and 2016, loan portfolio included short and long term loans to legal entities and individual entrepreneurs to purchase new equipment, agricultural machinery and vehicles produced in Republic of Belarus and sold in Ukraine. The Bank receives compensation in the amount of 2/3 of the discount rate of the National Bank of Ukraine on the date of the loan agreement, but not more than 8% per annum.

As at 31 December 2017 and 2016, total amount of these loans equaled to UAH 225,858 thousand and UAH 164,646 thousand, respectively.

As at 31 December 2017 and 2016, the amount of compensation received for loans to purchase new equipment, agricultural machinery and vehicles produced in Republic of Belarus, equaled to UAH 12,686 thousand and UAH 7,793 thousand, respectively.

(in Hryvnias and in thousands)

Allowance for impairment of loans to customers

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

	Legal entities	*SMEs*	*Individuals*	*Total*
As at 1 January 2017	**3,314,384**	**203,304**	**4,217,169**	**7,734,857**
(Reversal)/charge	789,709	(32,036)	(50,035)	**707,638**
Amounts written off	(44,453)	(55,376)	(93,511)	**(193,340)**
Translation differences	44,656	1,080	111,739	**157,475**
As at 31 December 2017	**4,104,296**	**116,972**	**4,185,362**	**8,406,630**
Individual impairment	3,755,326	79,514	4,125,811	**7,960,651**
Collective impairment	348,970	37,458	59,551	**445,979**
	4,104,296	**116,972**	**4,185,362**	**8,406,630**
Gross amount of loans, assessed on individual basis and determined to be impaired, before deducting allowance for impairment	**3,617,423**	**92,146**	**4,177,284**	**7,886,853**

	Legal entities	*SMEs*	*Individuals*	*Total*
As at 1 January 2016	**3,845,062**	**165,532**	**3,965,981**	**7,976,575**
(Reversal)/charge	(509,959)	22,461	(93,073)	**(580,571)**
Amounts written off	(67,697)	(302)	(87,379)	**(155,378)**
Translation differences	46,978	15,613	431,640	**494,231**
As at 31 December 2016	**3,314,384**	**203,304**	**4,217,169**	**7,734,857**
Individual impairment	3,171,540	159,386	4,149,032	**7,479,958**
Collective impairment	142,844	43,918	68,137	**254,899**
	3,314,384	**203,304**	**4,217,169**	**7,734,857**
Gross amount of loans, assessed on individual basis and determined to be impaired, before deducting allowance for impairment	**3,603,742**	**171,114**	**4,195,912**	**7,970,768**

Impaired loans

During 2017, interest income accrued on loans with formed allowance for impairment amounted to UAH 335,627 thousand (2016: UAH 234,320 thousand).

Collateral

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

	31 December 2017				*31 December 2016*			
Type of collateral	*Loans to legal entities*	*SMEs*	*Loans to individuals*	*Total*	*Loans to legal entities*	*SMEs*	*Loans to individuals*	*Total*
Impaired loans								
Deposits	1,675	–	–	**1,675**	–	–	33	**33**
Real estate	788,861	75,919	201,466	**1,066,246**	1,517,751	48,170	790,365	**2,356,286**
Other assets	299,426	4,342	933	**304,701**	706,567	17,956	104,537	**829,060**
Unsecured	2,527,461	74,491	4,061,297	**6,663,249**	1,379,424	121,598	3,398,119	**4,899,141**
Total impaired loans	**3,617,423**	**154,752**	**4,263,696**	**8,035,871**	**3,603,742**	**187,724**	**4,293,054**	**8,084,520**
Loans with no signs of impairment								
Deposits	739,440	54,185	385	**794,010**	72,792	44,361	–	**117,153**
Real estate	11,809,383	927,733	700,589	**13,437,705**	6,096,844	515,732	755,041	**7,367,617**
Other assets	15,608,341	814,698	446,804	**16,869,843**	11,536,221	355,550	92,687	**11,984,458**
Unsecured	2,322,718	96,730	496,186	**2,915,634**	238,419	34,589	259,685	**532,693**
Total loans with no signs of impairment	**30,479,882**	**1,893,346**	**1,643,964**	**34,017,192**	**17,944,276**	**950,232**	**1,107,413**	**20,001,921**
Total	**34,097,305**	**2,048,098**	**5,907,660**	**42,053,063**	**21,548,018**	**1,137,956**	**5,400,467**	**28,086,441**

(in Hryvnias and in thousands)

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 31 December 2017, other assets include movable property, goods in turnover, etc.

The following table presents the structure of loans to customers by types of clients and currency debt:

	31 December 2017				*31 December 2016*			
Types of clients	*In foreign currency*	*In national currency*	*Total*	*Impaired*	*In foreign currency*	*In national currency*	*Total*	*Impaired*
State entities	4,381,852	10,535,874	**14,917,726**	4,434	2,862,261	8,077,937	**10,940,198**	–
Corporate clients	11,295,194	7,935,851	**19,231,045**	3,612,988	2,791,957	7,815,863	**10,607,820**	3,603,742
Micro	450,694	345,553	**796,247**	88,951	109,286	224,943	**334,229**	93,225
SME	693,999	506,386	**1,200,385**	65,802	504,418	299,309	**803,727**	94,499
Individuals	3,796,194	2,111,466	**5,907,660**	4,263,696	3,828,976	1,571,491	**5,400,467**	4,293,054
Total	**20,617,933**	**21,435,130**	**42,053,063**	**8,035,871**	**10,096,898**	**17,989,543**	**28,086,441**	**8,084,520**

The following table presents the structure of loans in terms of customer segments and maturities:

	31 December 2017			*31 December 2016*		
Types of clients	*Within one year*	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
State entities	14,089,015	828,711	**14,917,726**	9,391,895	1,548,303	**10,940,198**
Corporate clients	6,828,489	12,402,556	**19,231,045**	5,214,988	5,392,832	**10,607,820**
Micro	86,557	709,690	**796,247**	49,534	284,695	**334,229**
SME	150,807	1,049,578	**1,200,385**	152,309	651,418	**803,727**
Individuals	2,434,929	3,472,731	**5,907,660**	1,759,528	3,640,939	**5,400,467**
Total	**23,589,797**	**18,463,266**	**42,053,063**	**16,568,254**	**11,518,187**	**28,086,441**

As at 31 December, loans to customers in the amount of UAH 18,646,272 thousand are due from ten largest borrowers or groups of related counterparties of the Bank (44.34% of total loan portfolio) (2016: UAH 12,972,569 thousand or 46.2%).

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

	31 December 2017	***31 December 2016***
Electricity	9,999,455	4,051,452
Gas transportation	6,084,630	6,027,400
Individuals	5,907,660	5,400,467
Agriculture and food processing	4,962,347	3,607,734
Trade	4,420,899	3,180,275
Manufacturing	3,160,044	1,300,211
Real estate	2,868,251	1,713,968
Services	2,402,605	1,267,792
Metallurgy	1,133,544	363,829
Construction	543,085	338,957
Transport	463,726	707,809
Financing services	72,739	91,672
Other	34,078	34,875
Total	**42,053,063**	**28,086,441**

11. Trading securities

Trading securities comprise:

	31 December 2017	***31 December 2016***
Government bonds	315,094	386,454
Trading securities	**315,094**	**386,454**

(in Hryvnias and in thousands)

12. Investments available for sale

Investments available for sale comprise:

	31 December 2017	*31 December 2016*
Government bonds	19,675,154	18,273,712
State mortgage institution	890,190	905,850
Corporate bonds	–	805,879
Corporate shares	11,319	11,316
Investments available for sale	**20,576,663**	**19,996,757**

As at 31 December 2017, total accumulated impairment loss recognized in respect of investments available for sale amounted to UAH 59,380 thousand (2016: UAH 353,900 thousand). The change of accumulated impairment losses was due to reclassification to accounts receivable of corporate bonds (Notes 19, 20).

As at 31 December 2017, corporate bonds with the fair value of UAH 690,132 thousand (2016: UAH 703,938 thousand) were used as a collateral of long-term borrowings from the National Bank of Ukraine (Note 21).

As at 31 December 2017, government bonds with the fair value of UAH 381,663 thousand (2016: UAH 291,374 thousand) were used as a collateral to secure a long-term borrowing from one credit institution (Note 22).

13. Investments held to maturity

	Currency	*Maturity*	*Interest rate, %*	*31 December 2017*	*31 December 2016*
Deposit certificates issued by the National Bank of Ukraine	UAH	4 January 2017	12.00	–	1,000,657
				–	**1,000,657**

14. Investment property

Movements of investment property were as follows:

	31 December 2017	*31 December 2016*
1 January	**50,814**	**47,528**
Additions	222,874	–
Transfer (to)/from property and equipment	74,421	2,679
Fair value adjustment	725	607
31 December	**348,834**	**50,814**

Net gain from investment property includes rental income in amount of UAH 13,980 thousand (2016: UAH 8,648 thousand).

As at 31 December 2017, investment property of carrying value UAH 5,585 thousand (2016: UAH 22,939 thousand) was used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 21).

(in Hryvnias and in thousands)

15. Property and equipment and intangible assets

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

	Buildings and land plots	*Furniture and equipment*	*Leasehold improvements*	*Motor vehicles*	*Construction in progress and items not put into operation*	*Intangible assets*	*Total*
Cost or revalued amount							
As at 1 January 2017	**1,022,396**	**506,518**	**21,289**	**34,897**	**45,042**	**278,727**	**1,908,869**
Additions	–	122,970	5,797	7,737	104,772	113,118	**354,394**
Disposals	(64,577)	(3,864)	(2,821)	(803)	(984)	(3,354)	**(76,403)**
Transfers	6,220	62,345	228	(7,737)	(61,056)	–	**–**
Revaluation	(75,326)	–	–	–	–	–	**(75,326)**
Reclassification to investment property	(74,473)	–	–	–	–	–	**(74,473)**
Reclassification from assets held for sale	397,406	–	–	890	–	–	**398,296**
Reclassification from/(to) other property	(216,668)	–	–	24	–	–	**(216,644)**
Additions from repayment of loans to customers	11	50,941	–	–	6,532	–	**57,484**
As at 31 December 2017	**994,989**	**738,910**	**24,493**	**35,008**	**94,306**	**388,491**	**2,276,197**
Accumulated depreciation							
As at 1 January 2017	**–**	**280,418**	**14,825**	**24,441**	**–**	**79,242**	**398,926**
Depreciation charges	26,788	78,440	4,938	5,749	–	62,545	**178,460**
Disposals	(1,629)	(3,813)	(2,570)	(725)	–	(3,354)	**(12,091)**
Reclassification to investment property	(52)	–	–	–	–	–	**(52)**
Revaluation	(24,161)	–	–	–	–	–	**(24,161)**
Reclassification from/(to) other property	(946)	–	–	–	–	–	**(946)**
As at 31 December 2017	**–**	**355,045**	**17,193**	**29,465**	**–**	**138,433**	**540,136**
Net book value							
As at 1 January 2017	**1,022,396**	**226,100**	**6,464**	**10,456**	**45,042**	**199,485**	**1,509,943**
As at 31 December 2017	**994,989**	**383,865**	**7,300**	**5,543**	**94,306**	**250,058**	**1,736,061**

	Buildings and land plots	*Furniture and equipment*	*Leasehold improvements*	*Motor vehicles*	*Construction in progress and items not put into operation*	*Intangible assets*	*Total*
Cost or revalued amount							
As at 1 January 2016	**912,117**	**295,394**	**17,061**	**32,345**	**51,876**	**162,648**	**1,471,441**
Additions	–	174,645	26	4,123	65,721	116,079	**360,594**
Disposals	–	(8,351)	(2,910)	(2,146)	–	–	**(13,407)**
Transfers	20,038	44,830	7,112	575	(72,555)	–	**–**
Revaluation	93,076	–	–	–	–	–	**93,076**
Reclassification from investment property	(2,835)	–	–	–	–	–	**(2,835)**
As at 31 December 2016	**1,022,396**	**506,518**	**21,289**	**34,897**	**45,042**	**278,727**	**1,908,869**
Accumulated depreciation							
As at 1 January 2016	**–**	**238,258**	**15,860**	**20,323**	**–**	**51,505**	**325,946**
Depreciation charges	21,454	50,450	1,648	5,626	–	27,737	**106,915**
Disposals	–	(8,290)	(2,683)	(1,508)	–	–	**(12,481)**
Revaluation	(21,298)	–	–	–	–	–	**(21,298)**
Reclassification from investment property	(156)	–	–	–	–	–	**(156)**
As at 31 December 2016	**–**	**280,418**	**14,825**	**24,441**	**–**	**79,242**	**398,926**
Net book value							
As at 1 January 2016	**912,117**	**57,136**	**1,201**	**12,022**	**51,876**	**111,143**	**1,145,495**
As at 31 December 2016	**1,022,396**	**226,100**	**6,464**	**10,456**	**45,042**	**199,485**	**1,509,943**

As at 31 December 2017, the valuation of the fair value of buildings and land plots was performed by an independent appraiser. The method applied to estimate the fair value of buildings includes comparative approach to evaluation. Key assumptions relate to the condition, quality and location of the buildings used as comparatives.

(in Hryvnias and in thousands)

If the valuation of land and buildings was performed using a model of the original value, the carrying value of land and buildings as at 31 December 2017 amounted to UAH 878,368 thousand (2016: UAH 850,288 thousand).

As at 31 December 2017, property and equipment with the carrying amount of UAH 280,982 thousand (2016: UAH 272,393 thousand) were used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 21).

As at 31 December 2017, property and equipment and intangible assets with an historical cost of UAH 325,821 thousand (2016: 230,266 thousand UAH) are fully depreciated and amortized, but are still used by the Bank.

16. Assets held for sale

As at 31 December 2017, assets held for sale with the carrying amounts of UAH 60,508 thousand (2016: UAH 1,129,309 thousand) were received as repayment of debts from the Bank's customers:

	Land	*Non-residential property*	*Residential property*	*Ownership rights on real estate*	*Movables*	*Total*
Carrying value						
As at 1 January 2017	**366,527**	**594,657**	**130,529**	**36,706**	**890**	**1,129,309**
Additions	3,040	34,921	2,703	–	343	**41,007**
Reclassification to "Property and equipment and intangible assets"	(113,481)	(283,925)	–	–	(890)	**(398,296)**
Reclassification to "Other property"	(183,142)	(289,682)	(58,502)	(36,706)	–	**(568,032)**
Revaluation	(11,027)	(22,864)	(151)	–	–	**(34,042)**
Sale	(58,826)	(19,680)	(30,932)	–	–	**(109,438)**
As at 31 December 2017	**3,091**	**13,427**	**43,647**	**–**	**343**	**60,508**

	Land	*Non-residential property*	*Residential property*	*Ownership rights on real estate*	*Movables*	*Total*
Carrying value						
As at 1 January 2016	**397,984**	**414,223**	**121,252**	**36,706**	**–**	**970,165**
Additions	35,675	194,490	9,277	–	890	**240,332**
Sale	(67,132)	(14,056)	–	–	–	**(81,188)**
As at 31 December 2016	**366,527**	**594,657**	**130,529**	**36,706**	**890**	**1,129,309**

17. Other property

As at 31 December 2017, other property with the carrying amounts of UAH 740,764 thousand (2016: UAH 328 thousand) were received as repayment of debts from the Bank's customers.

	Land	*Non-residential property*	*Residential property*	*Ownership rights to real estate*	*Movables, furniture and equipment*	*Total*
Carrying amount						
As at 1 January 2017	**–**	**–**	**–**	**–**	**328**	**328**
Additions	6,451	2,202	13,306	–	53	**22,012**
Reclassification from "Assets held for sale"	183,142	289,683	58,501	36,706	–	**568,032**
Reclassification from/(to) "Property and equipment and intangible assets"	112,536	103,186	–	–	(24)	**215,698**
Write-off	(19,874)	(37,104)	(7,570)	–	–	**(64,548)**
Revaluation	(469)	(289)	–	–	–	**(758)**
As at 31 December 2017	**281,786**	**357,678**	**64,237**	**36,706**	**357**	**740,764**

(in Hryvnias and in thousands)

As at 31 December 2016, other property of the Bank is represented by movable property with a carrying value of UAH 328 thousand.

As at 31 December 2017, other property with a carrying value of UAH 32,240 thousand (2016: nil) were pledged as security for loans received from the National Bank of Ukraine (Note 21).

18. Taxation

Income tax benefit comprises:

	2017	*2016*
Changes in deferred taxes – origination and reversal of temporary differences	(105,023)	(3,202)
Deferred tax recognized in other comprehensive income	1,608	(19,913)
Income tax benefit	**(103,415)**	**(23,115)**

Reconciliation of the income tax expenses based on the current tax rates and actual income tax expense is as follows:

	2017	*2016*
Profit before income tax	**524,397**	**265,880**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**94,391**	**47,858**
Non-deductible expense for taxation	55,433	37,487
Adjustments of the tax base due to reassessment of temporary differences and changes in laws	3,607	(59,500)
Changes in unrecognized deferred tax assets	(256,846)	(48,960)
Income tax benefit	**(103,415)**	**(23,115)**

As at 31 December 2017 and 2016, deferred tax assets and liabilities and their movements for the respective periods were as follows:

	Origination and reversal of temporary differences			***Origination and reversal of temporary differences***		
	In profit or loss	***In equity***	***2017***	***In profit or loss***	***In equity***	***2016***
Tax effect of non-taxable temporary differences						
Accruals for unused vacations	54,331	–	–	54,331	–	(54,331)
Property and equipment and intangible assets	16,654	1,608	44,552	59,889	(19,913)	26,290
Unused vacations accrual	(1,175)	–	–	(1,866)	–	1,175
Tax losses carried forward	(223,241)	–	477,439	(138,199)	–	700,680
Deferred tax assets/(liabilities), gross	**(153,431)**	**1,608**	**521,991**	**(25,845)**	**(19,913)**	**673,814**
Unrecognized deferred tax asset	256,846	–	(334,407)	48,960	–	(591,253)
Deferred tax assets/(liabilities)	**103,415**	**1,608**	**187,584**	**23,115**	**(19,913)**	**82,561**
Deferred tax assets/(liabilities), net	**103,415**	**1,608**	**187,584**	**23,115**	**(19,913)**	**82,561**

Preparation and provision of financial statements and tax returns for corporate income tax occurs at different periods. Consequently, financial and tax accountings may have minor differences. These differences will be reflected in the tax accounting in the next reporting period.

In compliance with applicable tax laws of Ukraine, tax accounting is based solely on the rules of International Financial Reporting Standards and is in accordance with the Tax Code of Ukraine. The object of income tax is a financial result before tax, as defined in the financial statements in accordance with International Financial Reporting Standards, adjusted for differences by the Tax Code of Ukraine. Thus, tax accounting on the basis of accounting with further tax adjustments for timely and accurate tax reporting.

(in Hryvnias and in thousands)

19. Allowance for impairment of other assets and other provisions

	Other assets	*Guarantees and commitments*	*Provisions for legal risks*	*Total*
As at 31 December 2015	**510,231**	**2,461**	**–**	**512,692**
Charge/(reversal)	(22,615)	58,011	–	**35,396**
Amounts written off	(64,751)	–	–	**(64,751)**
Translation differences	4,056	32	–	**4,088**
As at 31 December 2016	**426,921**	**60,504**	**–**	**487,425**
Charge	17,584	115,317	72,216	**205,117**
Reclassification of allowance for receivables for securities	294,520	–	–	**294,520**
Amounts written off	(11,519)	–	(64,547)	**(76,066)**
Translation differences	3,303	25,902	–	**29,205**
As at 31 December 2017	**730,809**	**201,723**	**7,669**	**940,201**

Amounts written-off of UAH 64,547 thousand related to other property where ownership right have been lost by the Bank (Note 17).

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

20. Other assets and liabilities

Other assets comprise:

	31 December 2017	*31 December 2016*
Receivables for securities	578,266	283,041
Prepayments	183,900	153,301
Receivables for operations with credit cards	163,969	51,508
Clearing payments for payment cards	102,364	48,308
Receivable for property rights	100,001	100,001
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	51,081	48,885
Other income accrued	44,832	31,183
Other receivables for operations with banks	38,071	52,904
Inventories	22,679	11,558
Taxes recoverable, other than income tax	10,046	1,315
Receivables from employees	2,047	2,045
Other	17,209	7,886
	1,314,465	**791,935**
Less: allowance for impairment of other assets (Note 19)	(730,809)	(426,921)
Other assets	**583,656**	**365,014**

(in Hryvnias and in thousands)

Other liabilities comprise:

	31 December 2017	*31 December 2016*
Accruals for unused vacations	86,342	50,727
Payables on operations with clients	69,623	370,670
Payables on operations with clients on the purchase and sale of foreign currency, bank and precious metals	58,508	75,458
Accounts payable for taxes and compulsory payments, except for income tax	45,542	26,203
Payables to Individual Deposits Guarantee Fund	29,768	23,579
Accrued expenses for settlement and cash services	11,355	7,280
Rent of premises	8,298	9,399
Accounts payable for acquiring assets	6,423	9,741
Repair and maintenance of property and equipment and intangible assets	4,845	2,957
Connection services	3,354	1,351
Retention of premises	2,744	4,678
Rewarding partners for attracting clients	2,408	11,915
Payables to plastic cards transactions processing center	1,486	5,926
Accounts payable for payments to employees	825	6
Payables on operations with plastic cards	75	26,274
Other	35,999	43,396
Other liabilities	**367,595**	**669,560**

21. Due to the National Bank of Ukraine

Borrowings from the National Bank of Ukraine comprise:

	Maturity	*31 December 2017`*	*31 December 2016*
Long-term refinancing borrowings from the National Bank of Ukraine	31 August 2018	207,459	199,132
	30 April 2019	206,645	196,602
	28 December 2017	–	157,661
	28 February 2017	–	21,602
Total long-term borrowings from the National Bank of Ukraine		**414,104**	**574,997**

As at 31 December 2017, the interest rate for the due to the National Bank of Ukraine was 7.0% per annum (2016: 7.0% per annum).

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 31 December 2017, the discount rate of the National Bank of Ukraine amounted to 14.5% (2016: 14.0%).

As at 31 December 2017 and 2016, the following assets were pledged as collateral to secure borrowings from the National Bank of Ukraine:

	Notes	*31 December 2017*	*31 December 2016*
Corporate bonds	12	690,132	703,938
Buildings and land plots – property and equipment	15	280,982	272,393
Buildings – investment property	14	5,585	22,939
Other property	17	32,240	–
Assets held for sale	16	–	59,683

(in Hryvnias and in thousands)

22. Due to credit institutions

Due to credit institutions comprises:

	31 December 2017	*31 December 2016*
Correspondent accounts	1,520,590	753,262
Term deposits and loans	385,888	301,688
Other due to credit institutions	40,452	50,750
Due to credit institutions	**1,946,930**	**1,105,700**

As at 31 December 2017, due to credit institutions include balances in the amount of UAH 1,078,729 thousand (55.41%) that were placed by three banks (2016: balances in the amount of UAH 335,734 thousand (30.36%) that were placed by two banks).

As at 31 December 2017, long-term borrowing received from one credit institution was secured by government bonds with the fair value of UAH 381,663 thousand (2016: UAH 291,374 thousand) (Note 12).

23. Due to customers

Due to customers comprise:

	31 December 2017	*31 December 2016*
Current accounts		
- Legal entities	27,791,704	18,580,599
- Individuals	3,706,143	3,347,815
- Budget organizations	140,369	213,287
	31,638,216	**22,141,701**
Time deposits		
- Legal entities	16,048,185	13,829,027
- Individuals	12,959,717	10,210,238
	29,007,902	**24,039,265**
Due to customers	**60,646,118**	**46,180,966**

As at 31 December 2017, due to customers in the amount of UAH 22,083,988 thousand (36.41%) included due to ten biggest customers of the Bank (2016: UAH 18,060,567 thousand (39.11%)).

Due to customers by industry are summarized as follows:

	31 December 2017	*31 December 2016*
Individuals	16,665,860	13,558,053
Services	12,648,426	2,451,225
Transport	11,589,052	9,306,651
Manufacturing	3,033,086	1,871,145
Energy	2,650,078	2,113,495
Trade	2,365,471	1,216,668
Insurance	2,000,632	1,756,061
Financing services	1,465,247	1,509,595
Metallurgy	1,416,038	6,411,940
Agriculture and food industry	1,152,159	802,750
Construction	880,916	537,261
Other	4,779,153	4,646,122
Due to customers	**60,646,118**	**46,180,966**

As at 31 December 2017, category "Other" includes funds of non-resident legal entities of UAH 4,643,559 thousand (2016: UAH 4,641,426 thousand).

(in Hryvnias and in thousands)

As at 31 December 2017, loans to customers were secured by amounts due to customers of UAH 795,685 thousand (2016: UAH 117,186 thousand.) (Note 10).

As at 31 December 2017, amounts due to customers were pledged for secured financial commitments and contingencies in amount of UAH 1,896,871 thousand (2016: UAH 1,164,122 thousand) (Note 25).

24. Equity

Share capital

As at 31 December 2017, authorized issued share capital comprised 13,836,522,922 ordinary shares and 477,078 preferred shares (2016: 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 in case of liquidation of the Bank, to receive part of the property of the Bank or its value in proportion to the value of the shares owned by the Bank in the order and in accordance with the procedure stipulated by the legislation of Ukraine and the Bank's charter. 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*		
As at 31 December 2015	**13,836,523**	**477**	**13,836,523**	**477**	**13,837,000**	**13,837,000**
Issued and registered shares	–	–	–	–	–	–
As at 31 December 2016	**13,836,523**	**477**	**13,836,523**	**477**	**13,837,000**	**13,837,000**
Issued and registered shares	–	–	–	–	–	–
As at 31 December 2017	**13,836,523**	**477**	**13,836,523**	**477**	**13,837,000**	**13,837,000**

Movements in other reserves

Movements in other reserves were as follows:

	Property and equipment revaluation reserve	*Revaluation reserve for investments available for sale*	*Total*
As at 31 December 2015	**270,191**	**(393,041)**	**(122,850)**
Revaluation of property and equipment	110,629	–	**110,629**
Income tax associated with revaluation of property and equipment	(19,913)	–	**(19,913)**
Net gains on investments available for sale	–	625,549	**625,549**
As at 31 December 2016	**360,907**	**232,508**	**593,415**
Revaluation of property and equipment	(8,935)	–	**(8,935)**
Income tax associated with revaluation of property and equipment	1,608	–	**1,608**
Net losses from investments available for sale	–	(293,078)	**(293,078)**
Transfers on disposal of assets	(14,586)	–	**(14,586)**
As at 31 December 2017	**338,994**	**(60,570)**	**278,424**

(in Hryvnias and in thousands)

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.

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 certainties exist 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 31 December 2017, 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 31 December 2017 and 2016, contractual commitments and contingencies were as follows:

	31 December 2017	*31 December 2016*
Credit related commitments of the Bank		
Loan commitments	3,000,000	4,185,000
Letters of credit	1,149,618	655,030
Guarantees	3,064,056	862,129
Promissory note guarantees	–	233
Total	**7,213,674**	**5,702,392**

As at 31 December 2017 and 2016, loan commitments are represented by revocable commitments to the Bank's strategic customers.

As at 31 December 2017, total provisions recognized in respect of the Bank's commitments amounted to UAH 201,583 thousand (2016: UAH 60,504 thousand) (Note 19).

As at 31 December 2017, commitments and contingencies were secured by cash collateral in the amount of UAH 1,896,871 thousand (2016: UAH 1,164,122 thousand) (Note 23).

26. Net fee and commission income

Net fee and commission income comprises:

	31 December 2017	*31 December 2016*
Settlements operations	501,717	343,173
Agency operations in the foreign exchange market	83,371	44,965
Guarantees and letters of credit	60,844	24,719
Operations with securities	2,522	2,014
Other	71,414	35,562
Fee and commission income	**719,868**	**450,433**
Settlements operations	(150,981)	(100,536)
Guarantees and letters of credit	(12,515)	(6,554)
Agency operations in the foreign exchange market	(2,394)	(607)
Other	(2,278)	(16)
Fee and commission expense	**(168,168)**	**(107,713)**
Net fee and commission income	**551,700**	**342,720**

(in Hryvnias and in thousands)

27. Gains/(losses) on trading securities

Gains/(losses) on trading securities that are recognized in the statement of profit or loss and other comprehensive income comprise:

	31 December 2017	*31 December 2016*
Net gains from operations with trading securities	630	546
Gains/(losses) on revaluation of trading securities	4,486	(952)
Gains/(losses) on trading securities	**5,116**	**(406)**

28. Net gains on investments available for sale

Gains on investments available for sale that are recognized in the statement of profit or loss and other comprehensive income comprise:

	31 December 2017	*31 December 2016*
Net gains from operations with investments available for sale	51,602	27,854
Recovery of impairment of investments available for sale	–	54,832
Net gains on investments available for sale	**51,602**	**82,686**

29. Gains on foreign exchange operations and precious metals

Net gains on foreign exchange operations and precious metals comprise:

	31 December 2017	*31 December 2016*
Net gains from dealing operations	12,036	8,997
Gains/(losses) from translation differences	59,522	317,468
Gains from operations with foreign exchange and precious metals	**71,558**	**326,465**

30. Other income

	31 December 2017	*31 December 2016*
Positive result from sale of property and equipment and intangible assets	54,020	998
Penalties received	35,224	8,382
Fees from insurance companies and banks	34,923	14,881
Positive result from sale of assets held for sale	13,632	19,062
Recovery of previously written-off assets	6,992	2,501
Compensation costs for utilities of premises leased	6,601	5,422
Repayment of purchased impaired financial assets	5,195	60,160
Gain from acquired ownership of due to customers	1,625	6,961
Recovery of litigation expenses	1,407	1,674
Income from early repayment of customers term deposits	1,218	2,464
Fees for rental of deposit boxes	–	5,975
Other	10,984	8,405
Total other income	**171,821**	**136,885**

There have been cases in Bank's operations when the accounts, which are to be closed, have balances, which the customer does not appeal to. The line "Gain from acquired ownership of client funds" shows clients' funds that the Bank recognized as income in accordance with the Civil Code of Ukraine, because of the expiration of ownership of the balances.

(in Hryvnias and in thousands)

31. Staff costs and other operating expense

Staff costs and other operating expense comprise:

	31 December 2017	*31 December 2016*
Salaries and bonuses	740,387	487,574
Charges on payroll	130,115	93,150
Other staff costs	42,231	352
Staff costs	**912,733**	**581,076**
Payments to the Individual Deposit Guarantee Fund	110,773	89,699
Communications	110,678	66,275
Repairs and maintenance of property and equipment	106,970	71,253
Professional services	97,807	76,543
Result on revaluation of property and equipment and intangible assets, assets held for sale, other property	78,674	10
Reward to partners for attraction of customers	60,218	120,035
Office supplies	51,841	21,085
Taxes, other than income tax	47,585	49,921
Lease and maintenance of premises	42,399	33,053
Charity	33,455	5,946
Software support	26,754	24,655
Security	21,327	15,221
Expenses for the accumulation of values	13,176	9,393
Marketing and advertising	11,598	19,909
Business trips	6,393	5,400
Costs for enforcement of judgments	3,205	–
Fines and penalties	337	41
Other	34,847	23,376
Other operating expense	**858,037**	**631,815**

32. Risk management

The Bank's risk management system is based on its size, business model, scale of activity, types and complexity of operations. The risk management system includes: risk identification, risk assessment, mitigation and limitation or risk avoidance, risk monitoring and control, stress testing, capital adequacy assessment and liquidity.

Risk management structure

Supervisory Board

The Supervisory Board defines and approves the strategy of risk management, credit policy, individual risk management policies, the plan for ensuring continuous activity, the plan for financing crisis situations, determines the risk appetite and sets the limits of risk, monitors the effectiveness of the operation of the risk management system, recognizes the sources of capitalization and other Bank financing.

Risk Management Committee of the Supervisory Board

The Risk Management Committee of the Supervisory Board ensures the availability and maintenance in the current state of the internal regulation acts regulating the risk management process and the Bank's credit policy, regularly monitors and analyzes the current risk profile adopted by the Bank, monitors the compliance with the risk limits established by Supervisory board.

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.

(in Hryvnias and in thousands)

Collegial strictures of the Board

Credit Council, Credit Committee, Committee for Methodological Support for Retail, Small and Microbusiness Risk Management, Commission for Problem Borrowing of Borrowers, Commission for monitoring credit operations of clients, credit commissions for directories manage credit risk within the limits of powers delegated by the Management Board.

The Assets and Liabilities Management Committee manages the liquidity risk, interest rate risk and market risk within the limits of the powers delegated by the Management Board.

The Operational Risk Management Committee manages the operational risk within the limits of the powers delegated by the Management Board.

The Information Security Management Committee manages information risk as a component of operational risk within the limits of the powers delegated by the Management Board.

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 appetite and marginal risk indicators

The Supervisory Board at least once a year with the approval of the annual financial plan (budget) of the Bank, or more often, if necessary, approves the risk appetite of the Bank as a set of thresholds for each type of risk.

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 Supervisory Board approved the Credit Policy, which defines the main lines of lending and regulates the basic principles and conditions for the acceptance of credit risk. To manage the risk of concentration of the loan portfolio, the Bank monitors the structure of loan portfolio and, if necessary, establishes appropriate limits.

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 maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

(in Hryvnias and in thousands)

Credit quality by categories of financial assets

The credit quality of financial assets after allowances for impairment as at 31 December 2017 is as follows:

	Notes	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (other than cash on hand)	7	6,266,697	–	–	**6,266,697**
Due from credit institutions	8	280,569	–	3,458,985	**3,739,554**
Loans to customers	10				
Legal entities		26,634,430	2,916,028	442,551	**29,993,009**
SMEs		1,855,277	63,217	12,632	**1,931,126**
Individuals		1,531,287	120,119	70,892	**1,722,298**
Trading securities	11	315,094			**315,094**
Investments available for sale	12	20,565,344	–	–	**20,565,344**
Total		**57,448,698**	**3,099,364**	**3,985,060**	**64,533,122**

The credit quality of net financial assets, after allowances for impairment, as at 31 December 2016 is as follows:

	Notes	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (other than cash on hand)	7	1,490,888	–	–	**1,490,888**
Due from credit institutions	8	807,471	–	5,714,456	**6,521,927**
Loans to customers	10				
Legal entities		17,487,815	104,039	641,780	**18,233,634**
SMEs		916,947	5,658	12,047	**934,652**
Individuals		1,046,339	65,283	71,676	**1,183,298**
Trading securities	11	386,454	–	–	**386,454**
Investments available for sale	12	19,996,757	–	–	**19,996,757**
Investments held to maturity	13	1,000,657	–	–	**1,000,657**
Total		**43,133,328**	**174,980**	**6,439,959**	**49,748,267**

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

The credit rating of Ukraine, according to the international rating agencies, as at 31 December 2017, corresponded to a speculative level of CCC (2016: CCC).

Investments available for sale, in particular government 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 investments 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.

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

	uaAAA – A-	*uaBBB – B-*	*Lower than B-*	*Unrated*	*31 December 2017*
Cash and cash equivalents (other than cash on hand)	–	–	6,266,697	–	**6,266,697**
Due from credit institutions	1,164,003	2,241,627	100	333,824	**3,739,554**
Derivative financial assets	–	50	–	860	**910**
Trading securities	–	–	315,094	–	**315,094**
Investments available for sale	7	–	20,573,555	3,101	**20,576,663**
Investments held to maturity	–	–	–	–	**–**

(in Hryvnias and in thousands)

	uaAAA – A-	*uaBBB – B-*	*Lower than B-*	*Unrated*	***31 December 2016***
Cash and cash equivalents (other than cash on hand)	–	–	1,490,888	–	**1,490,888**
Due from credit institutions	1,053,225	4,653,806	102	814,794	**6,521,927**
Derivative financial assets	403	12	–	9,005	**9,420**
Trading securities	–	–	386,454	–	**386,454**
Investments available for sale	–	–	19,883,935	101,506	**19,985,441**
Investments held to maturity	–	–	1,000,657	–	**1,000,657**

Ageing of past due loans is provided below.

Ageing analysis of past due but not impaired loans as at 31 December 2017 is as follows:

	Up to 31 days	**From 31 to 60 days**	**From 61 to 90 days**	**More than 90 days**	**Total**
Loans to customers					
Legal entities	2,910,043	5,984	–	1	**2,916,028**
SMEs	62,624	–	593	–	**63,217**
Individuals	95,245	8,169	1,783	14,922	**120,119**
Total	**3,067,912**	**14,153**	**2,376**	**14,923**	**3,099,364**

Ageing analysis of past due but not impaired loans as at 31 December 2016 is as follows:

	Up to 31 days	**From 31 to 60 days**	**From 61 to 90 days**	**More than 90 days**	**Total**
Loans to customers					
Legal entities	102,031	2,008	–	–	**104,039**
SMEs	3,001	353	130	2,174	**5,658**
Individuals	46,069	8,193	1,527	9,494	**65,283**
Total	**151,101**	**10,554**	**1,657**	**11,668**	**174,980**

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

Geographical concentration

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

	31 December 2017			
	Ukraine	***OECD countries***	***CIS and other foreign banks***	***Total***
Assets				
Cash and cash equivalents	7,264,287	–	–	**7,264,287**
Precious metals	7,958	–	–	**7,958**
Due from credit institutions	352,773	3,318,528	68,253	**3,739,554**
Derivative financial assets	910	–	–	**910**
Loans to customers	33,646,433	–	–	**33,646,433**
Trading securities	315,094	–	–	**315,094**
Investments available for sale	20,576,656	7	–	**20,576,663**
Other assets	189,054	–	–	**189,054**
	62,353,165	**3,318,535**	**68,253**	**65,739,953**
Liabilities				
Due to the National Bank of Ukraine	414,104	–	–	**414,104**
Due to credit institutions	1,946,930	–	–	**1,946,930**
Derivative financial liabilities	3,775	–	–	**3,775**
Due to customers	60,646,118	–	–	**60,646,118**
Provisions for guarantees and commitments	209,392	–	–	**209,392**
Other liabilities	73,822	–	–	**73,822**
	63,294,141	**–**	**–**	**63,294,141**
Difference between assets and liabilities	**(940,976)**	**3,318,535**	**68,253**	**2,445,812**

(in Hryvnias and in thousands)

	31 December 2016			
	Ukraine	***OECD countries***	***CIS and other foreign banks***	***Total***
Assets				
Cash and cash equivalents	2,482,132	–	–	**2,482,132**
Precious metals	14,112	–	–	**14,112**
Due from credit institutions	839,957	5,661,925	20,045	**6,521,927**
Derivative financial assets	9,420	–	–	**9,420**
Loans to customers	20,351,584	–	–	**20,351,584**
Trading securities	386,454	–	–	**386,454**
Investments available for sale	19,996,752	5	–	**19,996,757**
Investments held to maturity	1,000,657	–	–	**1,000,657**
Other assets	71,137	–	–	**71,137**
	45,152,205	**5,661,930**	**20,045**	**50,834,180**
Liabilities				
Due to the National Bank of Ukraine	574,997	–	–	**574,997**
Due to credit institutions	1,105,700	–	–	**1,105,700**
Derivative financial liabilities	16,300	–	–	**16,300**
Due to customers	46,180,966	–	–	**46,180,966**
Provisions for guarantees and commitments	60,504	–	–	**60,504**
Other liabilities	393,292	–	–	**393,292**
	48,331,759	**–**	**–**	**48,331,759**
Difference between assets and liabilities	**(3,179,554)**	**5,661,930**	**20,045**	**2,502,421**

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.

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 34.

The tables below summarize the information on undiscounted cash flows of financial liabilities as at 31 December 2017 and 2016 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.

Financial liabilities as at 31 December 2017	***Up to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Due to the National Bank of Ukraine	87,181	254,503	108,811	–	**450,495**
Due to credit institutions	1,695,756	13,034	284,447	–	**1,993,237**
Gross settled derivative financial instruments:					
- amounts payable	(1,139,386)	–	–	–	**(1,139,386)**
- amounts receivable	1,143,162	–	–	–	**1,143,162**
Due to customers	47,746,975	12,845,605	824,711	82,208	**61,499,499**
Other liabilities	73,822	–	–	–	**73,822**
Total undiscounted financial liabilities	**49,607,510**	**13,113,142**	**1,217,969**	**82,208**	**64,020,829**

(in Hryvnias and in thousands)

Financial liabilities as at 31 December 2016	*Up to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Due to the National Bank of Ukraine	56,693	166,112	450,496	–	**673,301**
Due to credit institutions	887,648	74,410	176,682	–	**1,138,740**
Gross settled derivative financial instruments:					
- amounts payable	(1,539,904)	–	–	–	**(1,539,904)**
- amounts receivable	1,556,204	–	–	–	**1,556,204**
Due to customers	38,049,633	8,400,132	615,153	2,030	**47,066,948**
Other liabilities	393,292	–	–	–	**393,292**
Total undiscounted financial liabilities	**39,403,566**	**8,640,654**	**1,242,331**	**2,030**	**49,288,581**

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.

	Up to 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
31 December 2017	1,353,100	5,160,700	538,584	161,290	**7,213,674**
31 December 2016	884,558	4,424,282	393,552	–	**5,702,392**

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 collegial body 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.

Interest rate risk

Interest rate risk is the actual or potential risk to the Bank's earnings and capital arising from adverse changes in interest rates on the market. This risk affects both the profitability of the Bank and the economic value of its assets, liabilities and off-balance sheet instruments. The table below shows the sensitivity to possible changes in interest rates, with the unchangeable value of all other variables of statement of profit or loss and other comprehensive income of the Bank.

Sensitivity of profit or loss and other comprehensive income reflects the effect of the assumed changes in interest rates on net interest income for one year, there will be gaps between maturities of assets and liabilities to revise the interest rate that reflects maturity to review of the base rate for instruments with floating (variable) interest rate and maturity for instruments with fixed interest rate.

Sensitivity of profit or loss and other comprehensive income (method of revaluation maturity gaps)

	31 December 2017					
	Up to 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Assets	13,034,202	8,794,395	19,484,002	17,176,738	5,530,433	**64,019,770**
Liabilities	48,448,249	4,687,910	8,673,407	1,046,519	151,068	**63,007,153**
Difference between assets and liabilities	**(35,414,047)**	**4,106,485**	**10,810,595**	**16,130,219**	**5,379,365**	**1,012,617**
1%	(339,587)	34,202	40,577			**(264,808)**
-1%	339,587	(34,202)	(40,577)			**264,808**

(in Hryvnias and in thousands)

	31 December 2016					
	Up to 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Assets	10,093,991	2,533,067	15,114,241	15,716,095	6,290,872	**49,748,266**
Liabilities	32,879,741	7,286,432	6,522,771	1,171,644	1,076	**47,861,664**
Difference between assets and liabilities	**(22,785,750)**	**(4,753,365)**	**8,591,470**	**14,544,451**	**6,289,796**	**1,886,602**
1%	(218,493)	(39,590)	32,247			**(225,836)**
-1%	218,493	39,590	(32,247)			**225,836**

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.

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 31 December 2017 are as follows:

	UAH	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents and current accounts in the National Bank of Ukraine	6,405,125	696,893	148,614	13,655	**7,264,287**
Precious metals	–	–	–	7,958	**7,958**
Due from credit institutions	309,426	2,826,203	339,701	264,224	**3,739,554**
Loans to customers	17,748,295	10,156,133	5,742,005	–	**33,646,433**
Trading securities	347	314,747	–		**315,094**
Investments available for sale	9,421,464	9,671,266	1,483,933	–	**20,576,663**
Investment property	348,834	–	–	–	**348,834**
Property and equipment and intangible assets	1,736,061	–	–	–	**1,736,061**
Assets held for sale	60,508	–	–	–	**60,508**
Other property	740,764	–	–	–	**740,764**
Current income tax assets	4,921	–	–	–	**4,921**
Deferred income tax assets	187,584	–	–	–	**187,584**
Other assets	515,526	52,417	15,713	–	**583,656**
Total assets	**37,478,855**	**23,717,659**	**7,729,966**	**285,837**	**69,212,317**
Liabilities					
Amounts due to National Bank of Ukraine	414,104	–	–	–	**414,104**
Due to credit institutions	250,048	1,287,794	340,997	68,091	**1,946,930**
Due to customers	31,720,689	21,561,912	7,202,229	161,288	**60,646,118**
Provisions for guarantees and commitments	13,140	–	196,252	–	**209,392**
Other liabilities	345,231	9,041	10,661	2,662	**367,595**
Total liabilities	**32,743,212**	**22,858,747**	**7,750,139**	**232,041**	**63,584,139**
Net long/(short) recognized position	**4,735,643**	**858,912**	**(20,173)**	**53,796**	
Off-balance items					
Assets receivable	961,247	185,442	208,342	7,546	**1,362,577**
Assets payable	(93,674)	(1,086,693)	(98,945)	(86,130)	**(1,365,442)**
Net long/(short) unrecognized position	**867,573**	**(901,251)**	**109,397**	**(78,584)**	
Total long/(short) recognized and unrecognized position	**5,603,216**	**(42,339)**	**89,224**	**(24,788)**	

(in Hryvnias and in thousands)

The major foreign currency denominated positions of assets and liabilities as at 31 December 2016 are as follows:

	UAH	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents and current accounts in the National Bank of Ukraine	1,907,205	272,905	259,508	42,514	**2,482,132**
Precious metals	–	–	–	14,112	**14,112**
Due from credit institutions	824,297	3,243,623	2,164,012	289,995	**6,521,927**
Loans to customers	14,626,038	4,473,490	1,252,056	–	**20,351,584**
Trading securities	4,555	381,899	–	–	**386,454**
Investments available for sale	8,354,784	11,641,973	–	–	**19,996,757**
Investments held to maturity	1,000,657	–	–	–	**1,000,657**
Investment property	50,814	–	–	–	**50,814**
Property and equipment and intangible assets	1,509,943	–	–	–	**1,509,943**
Assets held for sale	1,129,309	–	–	–	**1,129,309**
Other property	328	–	–	–	**328**
Current income tax assets	4,921	–	–	–	**4,921**
Deferred income tax assets	82,561	–	–	–	**82,561**
Other assets	319,917	30,005	15,092	–	**365,014**
Total assets	**29,815,329**	**20,043,895**	**3,690,668**	**346,621**	**53,896,513**
Liabilities					
Amounts due to National Bank of Ukraine	574,997	–	–	–	**574,997**
Due to credit institutions	106,617	695,030	279,237	24,816	**1,105,700**
Due to customers	23,827,610	18,851,117	3,399,834	102,405	**46,180,966**
Provisions for guarantees and commitments	2,094	–	58,410	–	**60,504**
Other liabilities	324,696	29,565	311,961	3,338	**669,560**
Total liabilities	**24,836,014**	**19,575,712**	**4,049,442**	**130,559**	**48,591,727**
Net long/(short) recognized position	**4,979,315**	**468,183**	**(358,774)**	**216,062**	
Off-balance items					
Assets receivable	674,963	988,518	624,012	3,665	**2,291,158**
Assets payable	(577,654)	(1,240,997)	(261,549)	(217,838)	**(2,298,038)**
Net long/(short) unrecognized position	**97,309**	**(252,479)**	**362,463**	**(214,173)**	
Total long/(short) recognized and unrecognized position	**5,076,624**	**215,704**	**3,689**	**1,889**	

The tables below indicate the currencies to which the Bank had significant exposure as at 31 December 2017 and 2016 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 decrease in profit or in equity while a positive amount reflects a net potential increase in profit or in equity.

Currency	*Increase in foreign currency exchange rate % 31 December 2017*	*Effect on profit before tax 31 December 2017*	*Increase in foreign currency exchange rate % 31 December 2016*	*Effect on profit before tax 31 December 2016*
USD	14.00%	(5,928)	53.00%	114,323
EUR	22.00%	19,629	53.00%	1,955

Currency	*Decrease in foreign currency exchange rate % 31 December 2017*	*Effect on profit before tax 31 December 2017*	*Decrease in foreign currency exchange rate % 31 December 2016*	*Effect on profit before tax 31 December 2016*
USD	-10.00%	4,234	-13.00%	(28,042)
EUR	-9.00%	(8,030)	-15.00%	(553)

33. 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. 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.

The Bank uses the following hierarchy for determining and disclosing the fair value of assets and liabilities 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.

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

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):

Assets/liabilities	*Fair value hierarchy*	*Valuation techniques and key inputs*
Trading securities	1	Quoted bid prices in an active market.
Investments 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 comparative approach to evaluation and for items for which there are no market analogs, the income method is used. In comparative approach to evaluation, 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 comparative approach to evaluation and for items for which there are no market analogs the income approach is used. In the comparative approach to evaluation 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)

The following table summarizes assets and liabilities recognized at fair value on initial recognition using a three level fair value hierarchy:

	31 December 2017			
	Level 1	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Trading securities	–	315,094	–	**315,094**
Investments available for sale	7	20,565,344	11,312	**20,576,663**
Derivative financial assets	–	910	–	**910**
Investment property	–	–	348,834	**348,834**
Buildings and land plots	–	–	994,989	**994,989**
Total	**7**	**20,881,348**	**1,355,135**	**22,236,490**
Liabilities measured at fair value				
Derivative financial liabilities	–	3,775	–	**3,775**
Total	**–**	**3,775**	**–**	**3,775**

	31 December 2016			
	Level 1	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Trading securities	–	386,454	–	**386,454**
Investments available for sale	5	19,985,440	11,312	**19,996,757**
Derivative financial assets	–	9,420	–	**9,420**
Investment property	–	–	50,814	**50,814**
Buildings and land plots	–	–	1,022,396	**1,022,396**
Total	**5**	**20,381,314**	**1,084,522**	**21,465,841**
Liabilities measured at fair value				
Derivative financial liabilities	–	16,300	–	**16,300**
Total	**–**	**16,300**	**–**	**16,300**

Movements in Level 3 financial instruments measured at fair value

During 2017, there were no changes in the amounts of assets and liabilities, which are measured at fair value in Level 3.

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	***Expenses recognized in profit and loss***	***As at 31 December 2016***
Investments available for sale	128,233	(116,921)	11,312

The expenses of financial instruments of Level 3, included in profit or loss for 2016, is presented by the unrealized expenses resulting from the impairment of investments available for sale.

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 31 December 2017		***As at 31 December 2016***	
	Carrying amount	***Effect of potential alternative assumptions***	***Carrying amount***	***Effect of potential alternative assumptions***
Financial assets				
Investments available for sale	11,312	(11,312)	11,312	(11,312)

(in Hryvnias and in thousands)

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.

Cash and cash equivalents and due from credit institutions comprise by balances on correspondent accounts and short-term placements. 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 cash and cash equivalents, 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.

	31 December 2017			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	7,264,287	–	–	**7,264,287**
Due from credit institutions	–	–	3,739,554	**3,739,554**
Loans to customers	–	–	34,456,461	**34,456,461**
Total	**7,264,287**	**–**	**38,196,015**	**45,460,302**
Liabilities for which fair values are disclosed				
Due to the National Bank of Ukraine	–	–	414,104	**414,104**
Due to credit institutions	–	–	1,946,930	**1,946,930**
Due to customers	–	–	60,755,916	**60,755,916**
Total	**–**	**–**	**63,116,950**	**63,116,950**

	31 December 2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	2,482,132	–	–	**2,482,132**
Due from credit institutions	–	–	6,521,927	**6,521,927**
Loans to customers	–	–	21,000,129	**21,000,129**
Investments held to maturity	1,000,657	–	–	**1,000,657**
Total	**3,482,789**	**–**	**27,522,056**	**31,004,845**
Liabilities for which fair values are disclosed				
Due to the National Bank of Ukraine	–	–	574,997	**574,997**
Due to credit institutions	–	–	1,105,700	**1,105,700**
Due to customers	–	–	46,264,609	**46,264,609**
Total	**–**	**–**	**47,945,306**	**47,945,306**

(in Hryvnias and in thousands)

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.

	31 December 2017		*31 December 2016*	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
Financial assets				
Cash and cash equivalents	7,264,287	7,264,287	2,482,132	2,482,132
Due from credit institutions	3,739,554	3,739,554	6,521,927	6,521,927
Loans to customers	33,646,433	34,456,461	20,351,584	21,000,129
Investments held to maturity	–	–	1,000,657	1,000,657
Total financial assets	**44,650,274**	**45,460,302**	**30,356,300**	**31,004,845**
Financial liabilities				
Due to the National Bank of Ukraine	414,104	414,104	574,997	574,997
Due to credit institutions	1,946,930	1,946,930	1,105,700	1,105,700
Due to customers	60,646,118	60,755,916	46,180,966	46,264,609
Total financial liabilities	**63,007,152**	**63,116,950**	**47,861,663**	**47,945,306**

34. 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 32 for the Bank’s contractual undiscounted repayment obligations.

	31 December 2017				*31 December 2016*			
	Within one year	*More than one year*	*Maturity undefined*	*Total*	*Within one year*	*More than one year*	*Maturity undefined*	*Total*
Cash and cash equivalents	7,264,287	–	–	**7,264,287**	2,482,132	–	–	**2,482,132**
Precious metals	7,958	–	–	**7,958**	14,112	–	–	**14,112**
Derivative financial assets	910	–	–	**910**	9,420	–	–	**9,420**
Due from credit institutions	3,739,554	–	–	**3,739,554**	6,521,927	–	–	**6,521,927**
Loans to customers	17,733,094	15,913,339	–	**33,646,433**	12,095,856	8,255,728	–	**20,351,584**
Trading securities	315,094	–	–	**315,094**	386,454	–	–	**386,454**
Investments available for sale	8,619,180	11,957,483	–	**20,576,663**	6,245,517	13,751,240	–	**19,996,757**
Investments held to maturity	–	–	–	**–**	1,000,657	–	–	**1,000,657**
Investment property	–	–	348,834	**348,834**	–	–	50,814	**50,814**
Property and equipment and intangible assets	–	–	1,736,061	**1,736,061**	–	–	1,509,943	**1,509,943**
Assets held for sale	60,508	–	–	**60,508**	1,129,309	–	–	**1,129,309**
Other property	–	–	740,764	**740,764**	–	–	328	**328**
Current tax assets	–	4,921	–	**4,921**	–	4,921	–	**4,921**
Deferred tax assets	–	187,584	–	**187,584**	–	82,561	–	**82,561**
Other assets	583,656	–	–	**583,656**	365,014	–	–	**365,014**
Total	**38,324,241**	**28,063,327**	**2,825,659**	**69,213,227**	**30,250,398**	**22,094,450**	**1,561,085**	**53,905,933**
Due to the National Bank of Ukraine	318,488	95,616	–	**414,104**	181,621	393,376	–	**574,997**
Due to credit institutions	1,691,410	255,520	–	**1,946,930**	885,576	220,124	–	**1,105,700**
Derivative financial liabilities	3,775	–	–	**3,775**	16,300	–	–	**16,300**
Due to customers	59,799,667	846,451	–	**60,646,118**	45,621,747	559,219	–	**46,180,966**
Provisions for guarantees and commitments	209,392	–	–	**209,392**	60,504	–	–	**60,504**
Other liabilities	367,595	–	–	**367,595**	669,560	–	–	**669,560**
Total	**62,390,327**	**1,197,587**	**–**	**63,587,914**	**47,435,308**	**1,172,719**	**–**	**48,608,027**
Net amount	**(24,066,086)**	**26,865,740**	**2,825,659**	**5,625,313**	**(17,184,910)**	**20,921,731**	**1,561,085**	**5,297,906**

The Bank's management believes that negative liquidity gap (liquidity gap between financial assets and financial liabilities repayable within one year as at 31 December 2017 amounted to UAH 24,227,423 thousand) that arose as at 31 December 2017 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 – government bonds in the amount of UAH 11,160,315 thousand, bonds of the State Mortgage Institution in the amount of UAH 20,678 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 31 December 2017, 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 11,180,994 thousand.
- Stable balances on current customer accounts determined on the basis of statistical analysis of fluctuations in current customer account balances. As at 31 December 2017, stable balances on current accounts were estimated to be equal to UAH 12,203,421 thousand. Based on the going concern assumption, actual maturity of the stable balances may be considered as undefined.
- Stable balances on customer in other accounts determined on the basis of statistical analysis of fluctuations in other customer accounts. As at 31 December 2017, stable balances on other accounts were estimated to be equal to UAH 3,904,143 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 31 December 2017 in the amount of UAH 24,227,423 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 3,061,135 thousand.

35. 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 31 December 2017, the Bank was by 94.94% a state-owned bank under control of the Ministry of Finance of Ukraine (2016: 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 Hryvnias and in thousands)

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:

	31 December 2017			*31 December 2016*		
	State controlled entities	***Other related parties***	***Key management personnel***	***State controlled entities***	***Other related parties***	***Key management personnel***
Assets						
Cash and cash equivalents	4,504,623	–	–	–	–	–
Current accounts with the National Bank of Ukraine	1,242,025	–	–	1,178,348	–	–
Current accounts with other credit institutions	443,046	–	–	289,753	–	–
Due from credit institutions	100	–	–	102	–	–
Loans gross	14,857,167	1,034	17,640	10,691,593	911	14,360
Less: allowance for impairment	(585,160)	(1)	(125)	(212,235)	(1)	(147)
Trading securities	315,094	–	–	386,454	–	–
Investments available for sale	20,573,488	–	–	19,890,594	–	–
Investments held to maturity	–	–	–	1,000,657	–	–
Liabilities						
Due to the National Bank of Ukraine	414,104	–	–	574,997	–	–
Due to credit institutions	50,526	8,482	–	275	2,700	–
Due to customers – deposits	6,036,396	179,758	47,163	7,305,521	57,766	74,346
Due to customers – current accounts	19,065,151	11,464	19,496	11,505,632	10,749	14,408
Commitments and guarantees issued	9,801,428	372	6,913	9,424,202	323	3,979
Statement of profit or loss and other comprehensive income						
Interest income on loans	1,318,339	128	810	1,059,303	103	513
Interest income on trading securities	23,016	–	–	7,354	–	–
Interest income on investments available for sale	2,021,768	–	–	1,697,884	–	–
Interest income on deposit certificates of the National Bank of Ukraine	531,359	–	–	878,266	–	–
Interest expense on due to the National Bank of Ukraine	73,803	–	–	183,215	–	–
Interest expense on due to credit institutions	5,472	348	–	80,442	42	–
Interest expense on due to customers	2,115,567	3,508	2,652	2,296,901	4,453	4,076
Allowance for impairment of loans: (provision)/recovery	(372,925)	–	22	(117,835)	711	(147)
Net profits/(losses) from trading securities	5,116	–	–	(406)	–	–
Net gains on investments available for sale	51,818	–	–	26,436	–	–
Other operating expense	110,773	–	–	89,699	–	–

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

The Banks activities relates 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 31 December 2017, 60% of assets and 56% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities (2016: 61% of assets and 40% of liabilities).

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

Remuneration to key management personnel comprises the following:

	31 December 2017	***31 December 2016***
Salaries and bonuses	42,434	27,190
Total remuneration to key management personnel	**42,434**	**27,190**

(in Hryvnias and in thousands)

36. Capital adequacy

The Bank's policy is to maintain a strong capital base 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 31 December 2017 and 2016 the minimum level required by the National Bank of Ukraine was 10%. The Bank complied with the statutory capital ratios during the periods ended 31 December 2017 and 2016.

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 31 December 2017 and 2016, 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 31 December 2017 and 2016:

	31 December 2017	*31 December 2016*
Tier 1 capital	6,449,193	5,806,795
Tier 2 capital	(823,880)	(508,889)
Total capital	**5,625,313**	**5,297,906**
Risk weighted assets	**45,173,595**	**34,674,864**
Tier 1 capital ratio	14.28%	16.75%
Total capital ratio	12.45%	15.28%

As at 31 December 2017 the Bank was in compliance with the capital ratio calculated in accordance with the Basel Accord.

37. Changes in liabilities arising from financing activities

	Due to the National Bank of Ukraine	*Due to credit institutions (long-term)*	*Total*
Carrying amount at 31 December 2016	574,997	220,114	**795,111**
Proceeds	–	80,939	**80,939**
Repayment	(180,000)	–	**(180,000)**
Non-cash transactions	19,107	(245)	**18,862**
Translation differences	–	35,101	**35,101**
Carrying amount at 31 December 2017	**414,104**	**335,909**	**750,013**

38. Subsequent events

After 31 December 2017, effective from 26 January 2018, the National Bank of Ukraine has increased the discount rate from 14.5% to 16.0% p.a. and to 17.0% p.a. starting from 2 March 2018.