PUBLIC JOINT STOCK COMPANY
“FIRST UKRAINIAN INTERNATIONAL BANK”

Financial statements

For the year ended 31 December 2017
together with independent auditor’s report

Translation from Ukrainian original

Contents

Ernst & Young Audit Services LLC
19A Khreshchatyk Street
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ua

ТОВ «Ернст енд Янг
Аудиторські послуги»
вул. Хрещатик, 19А
Київ, 01001, Україна
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської
Палати України: 3516

Independent auditor's report

To the Shareholders of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Opinion

We have audited the financial statements of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the Bank), which comprise the statement of financial position as at 31 December 2017, and income statement, the statement of 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 assessment of allowance for impairment on loans to customers is a key area of judgment for the Bank's management. Due to the material nature of the loans to customers' balances, which represent 55% of total assets, and the related estimation uncertainty, allowance for impairment of loans to customers is considered a key audit matter. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving various assumptions and factors including the financial standing of borrowers, expected future cash flows and fair value of collateral. The use of different assumptions could produce significantly different estimates of impairment of loans to customers. The Bank's management approach to assessing and managing credit risk is described in Note 10 and Note 28 to the financial statements.	We assessed and tested the design and operating effectiveness of the Bank's internal controls over impairment calculations including the quality of underlying data and systems. For allowance for impairment of loans to customers calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, and valuation of underlying collateral. For allowance for impairment of loans to customers calculated on a collective basis we tested the underlying models, assessed the appropriateness and tested the accuracy of inputs to those models, such as probability of default and recovery rates. We analysed associated disclosures in Note 10 and Note 28 to the financial statements in respect of allowance for impairment of loans to customers.
Valuation of buildings and investment property	
The Bank's aggregate value of buildings and investment property was UAH 984,263 thousands as at 31 December 2017. The Bank uses revaluation model in its accounting policy for the measurement of its buildings and the fair value model for investment property. 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. The significance of the aggregate value of buildings and investment property and subjectivity of these valuations make them a key audit matter.	Our audit procedures included assessment of the selection of the valuation methods and the design of valuation models, as well as the sources of significant assumptions. We assessed competence and objectivity of valuation specialist involved. For a sample of individually significant properties, we involved our real estate valuation specialists for analysis of the methodology and assumptions. We also performed procedures in relation to the disclosures in the financial statements of the valuation of buildings and investment property. Information on the valuation of buildings and investment property is included in Note 11 and Note 29 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 "FIRST UKRAINIAN INTERNATIONAL BANK" other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" 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 will 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

29 March 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

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of financial position as at 31 December 2017

(in thousands of Ukrainian hryvnias)

	Notes	2017	2016
Assets			
Cash on hand and in transit	6	1,499,210	1,162,368
Balance with the National Bank of Ukraine	7	1,178,795	1,213,522
Due from other banks	8	5,547,316	5,561,964
Securities:	9		
- at fair value through profit or loss		162,887	277,873
- available-for-sale		10,233,489	9,132,655
Loans to customers	10	25,495,599	24,755,755
Current income tax asset		2,405	45,405
Other assets	12	697,098	528,517
Property and equipment	11	1,253,795	1,213,395
Investment property	11	149,347	185,857
Intangible assets	11	300,003	287,578
Deferred tax asset	27	12,385	187,719
Total assets		**46,532,329**	**44,552,608**
Liabilities			
Due to other banks	13	865,004	1,147,889
Customer accounts	14	37,194,276	33,185,516
Deposit certificates issued	15	187,194	691,371
Eurobonds issued	16	1,915,014	4,290,540
Other borrowed funds	17	11,193	18,995
Other liabilities	18	996,732	679,252
Subordinated debt	19	489,656	490,750
Total liabilities		**41,659,069**	**40,504,313**
Equity			
Share capital	21	3,294,492	3,294,492
Share premium	21	101,660	101,660
Revaluation reserve for property and equipment	21	484,116	509,866
Revaluation reserve for securities available-for-sale	21	69,293	30,155
Reserve fund	21	1,475,430	1,475,430
Accumulated deficit	21	(551,731)	(1,363,308)
Total equity		**4,873,260**	**4,048,295**
Total liabilities and equity		**46,532,329**	**44,552,608**

Signed on behalf of the Management Board on 29 March 2018

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 57 form an integral part of these financial statements.

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Income statement for the year ended 31 December 2017

(in thousands of Ukrainian hryvnias)

	Notes	2017	2016
Interest income	23	5,162,044	5,045,757
Interest expense	23	(2,153,448)	(2,913,481)
Net interest income		**3,008,596**	**2,132,276**
Allowance for loan impairment	8, 10	(1,156,679)	(1,342,526)
Net interest income after allowance for loan impairment		**1,851,917**	**789,750**
Fee and commission income	24	1,728,227	1,329,330
Fee and commission expense	24	(459,645)	(348,397)
Net fee and commission income		**1,268,582**	**980,933**
Net gains from operations with foreign currencies			
- dealing		286,448	391,190
- translation differences		17,045	72,267
Net gains/(losses) from securities designated at fair value through profit or loss			
- dealing		(5)	727
- change in fair value		(5,180)	(2,251)
Net gains from securities available-for-sale			
- dealing		3,258	1,959
Net gains from revaluation of investment property	11	3,582	3,422
Net gains/(losses) from derivative financial instruments		82,303	(34,190)
Net losses on restructuring of mortgage loans to individuals in foreign currency	10	(5,524)	(28,508)
Reversal of the provision for commitments, guarantees and letters of credit	30	3,475	2,513
Other income	25	353,455	109,636
Operating income		**3,859,356**	**2,287,448**
Operating expenses	26	(2,906,786)	(1,839,874)
Income before income tax		**952,570**	**447,574**
Income tax expense	27	(166,743)	(80,563)
Net income for the reporting period		**785,827**	**367,011**
Income per share (in Ukrainian hryvnias per share)	**32**	**54.86**	**25.62**

Signed on behalf of the Management Board on 29 March 2018

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 57 form an integral part of these financial statements.

PUBLIC JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”
Statement of comprehensive income for the year ended 31 December 2017

(in thousands of Ukrainian hryvnias)

	2017	2016
Net income for the reporting period	**785,827**	**367,011**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Unrealised gains on investment securities available-for-sale	50,987	41,359
Realised losses on investment securities available-for-sale reclassified to the income statement	(3,258)	(1,959)
Income tax related to the components of other comprehensive income	(8,591)	(7,092)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**39,138**	**32,308**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		
Revaluation of buildings	–	(16,055)
Income tax related to the components of other comprehensive income	–	(1,618)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**–**	**(17,673)**
Other comprehensive income for the year, net of tax	**39,138**	**14,635**
Total comprehensive income for the reporting period	**824,965**	**381,646**

Signed on behalf of the Management Board on 29 March 2018

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 57 form an integral part of these financial statements.

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of cash flows for the year ended 31 December 2017

(in thousands of Ukrainian hryvnias)

	2017	2016
Cash flows from operating activities		
Interest income received	4,933,691	4,767,416
Interest expense paid	(2,172,999)	(2,888,680)
Fee and commission income received	1,699,220	1,379,155
Fee and commission expense paid	(437,588)	(351,218)
Income received from trading in foreign currencies	286,448	391,129
Gains from securities	(5)	2,686
Gains/(losses) from financial derivatives	64,100	(1,838)
Other income received	350,696	105,187
Operating expenses paid	(2,058,202)	(1,599,009)
Cash flows from operating activities before changes in operating assets and liabilities	**2,665,361**	**1,804,828**
Net (increase)/decrease in operating assets		
Mandatory reserve balance with the National Bank of Ukraine	668,840	(668,840)
Due from other banks	491,735	(488,443)
Securities at fair value through profit or loss	101,793	14,237
Loans to customers	(1,811,548)	1,817,020
Other assets	35,760	18,741
Net increase/(decrease) in operating liabilities		
Due to the National Bank of Ukraine	–	(485,426)
Due to other banks	(320,191)	876,265
Customer accounts	3,172,495	3,933,993
Deposit certificates issued	(498,269)	655,845
Other liabilities	229,487	156,996
Net cash from operating activities	**4,735,463**	**7,635,216**
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(451,335)	(247,590)
Proceeds from sale of property and equipment and intangible assets	28,931	19,227
Purchase of securities available-for-sale	(27,707,255)	(56,177,823)
Proceeds from sale of securities available-for-sale	27,385,454	50,765,312
Net cash used in investing activities	**(744,205)**	**(5,640,874)**
Cash flows from financing activities		
Redemption of Eurobonds, other borrowed funds and subordinated debt (Note 33)	(2,404,764)	(1,051,383)
Net cash used in financing activities	**(2,404,764)**	**(1,051,383)**
Effect of exchange rate changes on cash and cash equivalents	195,394	327,186
Net increase in cash and cash equivalents	**1,781,888**	**1,270,145**
Cash and cash equivalents at the beginning of the year	7,020,013	5,749,868
Cash and cash equivalents at the end of the year (Note 6)	**8,801,901**	**7,020,013**

Signed on behalf of the Management Board on 29 March 2018

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 57 form an integral part of these financial statements.

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of changes in equity for the year ended 31 December 2017

(in thousands of Ukrainian hryvnias)

	Share capital	Share premium	Revaluation reserve for property and equipment	Revaluation reserve for securities available-for-sale	Reserve fund	Accumu-lated deficit	Total equity
Balance at 31 December 2015	**3,294,492**	**101,660**	**538,213**	**(2,153)**	**1,475,430**	**(1,740,993)**	**3,666,649**
Net income for the year	–	–	–	–	–	367,011	367,011
Other comprehensive income for the year	–	–	(17,673)	32,308	–	–	14,635
Total comprehensive income for the year	**–**	**–**	**(17,673)**	**32,308**	**–**	**367,011**	**381,646**
Depreciation of property and equipment revaluation reserve	–	–	(10,674)	–	–	10,674	–
Balance at 31 December 2016	**3,294,492**	**101,660**	**509,866**	**30,155**	**1,475,430**	**(1,363,308)**	**4,048,295**
Net income for the year	–	–	–	–	–	785,827	785,827
Other comprehensive income for the year	–	–	–	39,138	–	–	39,138
Total comprehensive income for the year	**–**	**–**	**–**	**39,138**	**–**	**785,827**	**824,965**
Depreciation of property and equipment revaluation reserve	–	–	(9,570)	–	–	9,570	–
Transfer of property and equipment revaluation reserve resulted from disposal of assets	–	–	(16,180)	–	–	16,180	–
Balance at 31 December 2017	**3,294,492**	**101,660**	**484,116**	**69,293**	**1,475,430**	**(551,731)**	**4,873,260**

Signed on behalf of the Management Board on 29 March 2018

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 57 form an integral part of these financial statements.

(in thousands of Ukrainian hryvnias)

1. Principal activities

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of payment cards.

The Bank is a member of Individuals Deposits Guarantee Fund starting from 2 September 1999 (registration certificate No. 102 dated 6 November 2012), which operates according to the Law of Ukraine No. 2740-III *On Individuals Deposits Guarantee Fund*. The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual (31 December 2016: UAH 200 thousand).

As at 31 December 2017 and 2016, the Bank's shareholders are "SCM FINANCE" (92.2% of share capital), SCM HOLDINGS LIMITED (Cyprus) (7.7% of share capital) and an individual (0.1% of share capital). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

The Bank's legal address is: 4 Andriivska Street, Kyiv, Ukraine. As at 31 December 2017, the Bank had 6 regional centres and 158 branches throughout Ukraine (31 December 2016: 6 regional centres and 156 branches throughout Ukraine).

2. Operating environment of the Bank

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

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. In 2017, 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. Stabilization of the Ukrainian economy in the foreseeable future depends on success of actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

During 2017, official UAH/US dollar exchange rate established by the National Bank of Ukraine has increased by 3.22% from UAH/US dollar 27.190858 as at 1 January 2017 to UAH/US dollar 28.067223 as at 31 December 2017. In addition, factors such as decrease of liquidity and profitability of the corporate sector adversely affect debt servicing level of the Bank's loan portfolio. Events taking place in the economy, also lead to a decrease in the value of collateral for loans and other active operations of the Bank. Management analyses credit impairment considering the above mentioned risk factors.

During the year, the liquidity of the banking sector have improved as a result of return of customer accounts. During the first half of 2017, the National Bank of Ukraine had been reducing the key interest rate from 14% to 12.5%, but due to the acceleration of the inflation rate the rate was revised and by the end of 2017 it was 14.5%.

The banking system normalized during 2017: almost all key performance indicators of financial institutions had a positive dynamics. Consumer lending began to grow rapidly since the beginning of the year, corporate lending in UAH began to recover in the second half of the year. Funding base remained stable, although interest rates on deposits decreased. The decline in deposit rates by banks slowed down only at the end of the year due to the increase in inflationary expectations and the resulting increase in the discount rate of the National Bank of Ukraine.

Known and estimated results of the above factors on the financial position and performance of the Bank during the reporting period were taken into account while preparing these financial statements. The Bank's management monitors the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further negative 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.

3. Basis of preparation

General

These financial statements are prepared in accordance with the International Financial Reporting Standards (the "IFRS") under the historical cost convention except for financial instruments and investment property carried at fair value and premises and works of arts carried at revalued amount. These policies have been consistently applied by the Bank to all the periods presented, unless otherwise stated.

4. Summary of significant accounting policies

In the reporting year, the Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2017.

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 the current period in Note 33.

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 in IFRS 1

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.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All the assets and liabilities whose fair value is measured or disclosed in the financial statements are classified by fair value sources hierarchy level presented below on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4. Summary of significant accounting policies (continued)

Financial assets

Initial recognition

Financial assets 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 recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Bank. 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.

Financial assets at fair value through profit or loss

Financial assets held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

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 financial assets at fair value through profit or loss or designated as available-for-sale financial assets. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, income is recognised through the amortisation process.

Available-for-sale financial assets

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, deposit certificates issued by National Bank of Ukraine with maturity up to 1 working day, cash on hand and in transit and balances with the NBU, excluding mandatory reserve balances and accrued interests. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits.

Precious metals

The Bank has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are recognised in other assets with gains or losses recognised in other income.

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Sale and repurchase agreements

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

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 and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/(losses) from derivative financial instruments.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements 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 for a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to other banks, customer accounts, subordinated debt, Eurobonds issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised, expense is recognised through the amortisation process.

4. Summary of significant accounting policies (continued)

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. If the Bank is a lessee, then lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

If the Bank is a lessor, assets subject to operating leases are presented in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The direct costs incurred in modernisation are added to the carrying amount of the leased asset.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

Offsetting of financial instruments

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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at the end of each reporting period 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 occurred after the initial recognition of the financial asset (an incurred "loss event") and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or Bank of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a Bank 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 reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with inability to settle a liability (default).

Due from other banks and loans to customers

For due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists 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 exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

4. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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 (excluding 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 amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank.

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 variable 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 collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are Banked on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows in a Bank of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods on which historical loss experience is based and to remove the effects of past conditions 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 Bank 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.

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence 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 asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of profit or loss.

Available-for-sale financial investments

The Bank assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is 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 recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised 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. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

4. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral with the help of extending maturity and agreeing new loan terms. Once, the terms of loan are restructured, the loan is not considered as overdue. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Results on restructuring are recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

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

- The rights to receive cash flows from the asset have expired;
- 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; and
- The Bank either (a) has transferred substantially 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.

Control is retained if counterparty has no practical possibility to sell the assets to third party, not imposing any limits on sale.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Financial guarantees

Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each reporting date, the financial guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date. Any increase in the liability relating to financial guarantees is taken to the income statement.

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. When a loss is considered probable, provisions are recorded against other credit related commitments.

Income taxes

Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

4. Summary of significant accounting policies (continued)

Income taxes (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Property and equipment

Property and equipment, other than premises and items of arts, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and any accumulated impairment, where required.

Following initial recognition at cost, the Bank's premises and works of arts are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are 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 other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for premises and recognised in other comprehensive income.

When an item of premises is revalued, any accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation reserve is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are transferred to premises or leasehold improvements at their carrying value. Construction in progress is not depreciated until the asset is available for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, management of the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

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

Depreciation of an asset begins from the date of commissioning. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2-5%	
Leasehold improvements	20%	Or over the term of lease if shorter than 5 years
Computers and other equipment	20-33%	

Works of arts are not amortised. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

4. Summary of significant accounting policies (continued)

Intangible assets

All of the Bank's intangible assets have a definite useful life and include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable.

Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 3 to 10 years.

Investment property

Investment property is property, which is held by and not occupied by the Bank, to earn rental income or for capital appreciation.

Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the reporting date.

Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement in gains less losses on revaluation of investment property in the year in which they arise.

If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. In case of occurrence of events or changes in circumstances that indicate possible impairment of the carrying amount of assets (or disposal groups), the Bank recognizes impairment losses.

Provisions for contingencies

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

Retirement and other employee benefit obligations

The Bank pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Bank's contributions are expensed as incurred. The Bank has no other post-retirement benefit plans.

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

Segment reporting

Segment reporting comprises the following operating segments: Corporate banking, Retail banking, Distressed assets management, Investment banking and unallocated.

4. Summary of significant accounting policies (continued)

Contingencies

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

Recognition of income and expenses

Interest and similar income and expense

Interest income and expense are recorded in the income statement for all financial instruments measured at amortised cost and interest bearing securities at the effective interest method. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once the recorded value of a financial asset or a Bank of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

Fees, commissions and other income and expense items, including fees for issuance of guarantees, are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Foreign currency translation

The Ukrainian hryvnia is the Bank's functional currency as it is the currency of the primary economic environment in which the Bank operates. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as foreign exchange translation results. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Amendments of the financial statements after issue

The Bank's shareholders have the power to amend the financial statements after issue.

New accounting pronouncements

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued 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.

The Bank plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Bank is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

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 amortised 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 realised and unrealised gains and losses, except for dividend income, are recognised 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 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. Equity financial assets not attributed to the trading portfolio will be measured at FVOCI under IFRS. Loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

Impairment

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) 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 ECL 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 ECL 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 ECL.

For the purpose of estimation allowance for expected credit losses, the Bank groups loans to customers to 3 stages based on the changes in credit risk, as described below:

- Stage 1 – loans to customers not considered credit-impaired and whithout significant increase in credit risk;
- Stage 2 – loans to customers that have shown a significant increase in credit risk since origination, but not considered credit-impaired;
- Stage 3 – loans to customers considered credit-impaired and purchased or originated credit impaired loans that were credit impaired on initial recognition.

At least once in a months the Bank performs the assessment of:

- whether a credit risk has increased significantly (Stage 2);
- evidence of a default (Stage 3);
- adherence to criteria of significant credit risk increase removal (loans to customers that were included in the Stage 2);
- absence of evidence of impairment (loans to customers that were included in the Stage 3).

The main criteria for a significant increase in credit risk for the Bank may be a breach of payment obligations for more than 30 days, an expected or conducted restructuring (the deterioration of the creditor's position due to a delay in payment of interest or principal, but does not result in financial losses), deterioration of the financial stading of the client (decrease of the client's rating by more than 3 points, in comparison with the rating on the date of the initial recognition of the loan), etc.

The main evidence of impairment for the Bank may be violation of payment obligations for more than 90 days, restructuring, which is carried out with the deteriorating position of the creditor and results in financial losses, bankruptcy proceedings or liquidation of the client, etc.

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

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 *Financial instruments* 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 acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a 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. These amendments are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not expect a material effect from application of these amendments.

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-5 *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.

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

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 will assess the potential effect of IFRS 17 on its financial statements, including treatment of non-financial guarantees issued by 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. These amendments are 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. This election is made separately for each investment at initial recognition;
- 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.

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

Applying IFRS 9 Financial Instruments with IF RS 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. This amendment is not applicable to the Bank.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, 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. 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

These improvements are applied for annual reporting periods beginning on or after 1 January 2019. They include, in particular:

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

(in thousands of Ukrainian hryvnias)

5. Critical accounting estimates and judgements in applying accounting policies

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

Impairment of loans and receivables

The Bank regularly reviews its loan portfolios and accounts receivables to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a repayment of the borrower's debts before the decrease can be identified with an individual loan in that loan portfolio and accounts receivables. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment for groups of loans and accounts receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank regularly assesses assets pledged as collateral for the individually impaired loans to estimate the amount of losses to be incurred. The amount of the future cash flow from sale of assets is influenced by the value of the assets and the expected term of sale. A simultaneous 10% decrease in the value of assets held by the Bank as collateral on loans and 50% increase in the expected term of assets' sale would result in an increase in impairment losses of UAH 191,669 thousand (2016: UAH 113,204 thousand) on loans individually determined to be impaired.

A 10% increase in the value of collateral for individually impaired loans would result in a decrease of impairment loss of UAH 113,741 thousand (2016: UAH 61,298 thousand).

Impairment loss on corporate loans, which are collectively assessed for impairment, may be influenced by the probability of borrower's default (PD) and the level of loss incurred when a borrower defaults (LGD). A simultaneous 10% increase in PD and 10% decrease in LGD would result in an increase in impairment losses of UAH 40,453 thousand (2016: UAH 50,064 thousand). A simultaneous 10% decrease in PD and increase in LGD would result in a decrease in impairment losses of UAH 36,600 thousand (2016: UAH 45,724 thousand).

Impairment loss on collectively assessed retail loans may be influenced by the probability of borrower's default (PD) and recovery rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in an increase in impairment losses of UAH 17,793 thousand (2016: UAH 23,464 thousand). A simultaneous 10% decrease in PD and increase in RR would result in a decrease in impairment losses of UAH 18,881 thousand (2016: UAH 25,582 thousand).

Fair value of own use premises, works of arts and investment property

As stated in Note 4, the Bank's premises, works or arts and investment property are subject to revaluation on a regular basis. Such revaluations are based on the results of work of an independent appraiser. The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach. In 2017, the Bank performed revaluation of own premises by engaging independent appraisers. If the price per square meter is 5% higher or lower, the fair value of own premises would be UAH 41,746 thousand higher or lower, respectively (2016: UAH 45,721 thousand), and the fair value of investment property would be UAH 7,467 thousand higher or lower, respectively (2016: UAH 9,293 thousand).

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments at their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is the pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms of related party transactions are disclosed in Note 31.

Fair value measurements

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 29.

(in thousands of Ukrainian hryvnias)

6. Cash and cash equivalents

For the purpose of the cash flow statement cash and cash equivalents comprised the following:

	2017	2016
Cash on hand and in transit	1,499,210	1,162,368
Current accounts and overnight deposits with other banks (Note 8)	4,124,389	3,713,137
Current accounts and overnight deposits with other banks – interest income accrued (Note 8)	(493)	(174)
Current account with the National Bank of Ukraine (Note 7)	1,178,795	1,213,522
Current account with the National Bank of Ukraine – mandatory reserve balance (Note 7)	−	(668,840)
Deposit certificates (Note 9)	2,002,054	1,601,050
Deposit certificates − interest income accrued	(2,054)	(1,050)
Total cash and cash equivalents	**8,801,901**	**7,020,013**

7. Balance with the National Bank of Ukraine

	2017	2016
Current account with the National Bank of Ukraine, including:	1,178,795	1,213,522
- part of mandatory reserve balance	−	668,840
Total balance with the National Bank of Ukraine	**1,178,795**	**1,213,522**

In accordance with the NBU requirements, the Bank's mandatory reserve balance is computed as a percentage of certain Bank liabilities for the prior provisioning month.

From January 2015 to December 2017, the Bank was obliged to ensure on a daily basis the balance at the correspondent account with the National Bank of Ukraine at the beginning of the day in the amount of 40% of mandatory reserve for the previous month (31 December 2016: the estimated amount of the reserve − UAH 668,840 thousand).

8. Due from other banks

	2017	2016
Current accounts and overnight deposits with other banks		
- OECD countries	3,462,633	3,291,134
- domestic	70,044	84,302
- other countries	591,712	337,701
Total current accounts and overnight deposits with other banks	**4,124,389**	**3,713,137**
including accrued interest income	***493***	***174***
Term deposits with other banks, including:		
- OECD countries	1,106,530	1,585,146
- domestic	258,528	249,685
- other countries	43,787	43,327
- reverse sale and repurchase agreements	276,788	225,531
Total term deposits with other banks	**1,685,633**	**2,103,689**
Allowance for impairment of due from other banks	(262,706)	(254,862)
Total due from other banks	**5,547,316**	**5,561,964**

(in thousands of Ukrainian hryvnias)

8. Due from other banks (continued)

Placements were made with Ukrainian and foreign banks. Analysis by credit quality of due from other banks outstanding at 31 December 2017 is as follows:

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Total
Neither past due nor impaired			
AA- to AA+ rated	1,202,415	4,392	**1,206,807**
A- to A+ rated	310,445	1,044,607	**1,355,052**
BBB- to BBB+ rated	2,059,689	100,632	**2,160,321**
BB- to BB+ rated	243,515	686	**244,201**
B- to B+ rated	59,655	–	**59,655**
Unrated	248,670	278,478	**527,148**
Total neither past due nor impaired	**4,124,389**	**1,428,795**	**5,553,184**
Individually impaired loans			
more than 360 days overdue	–	256,838	**256,838**
Total individually impaired	**–**	**256,838**	**256,838**
Less allowance for impairment	–	(262,706)	**(262,706)**
Total due from other banks	**4,124,389**	**1,422,927**	**5,547,316**

The credit ratings were based on the ratings assigned by the international rating agencies Fitch. Counterparties included in the category of "unrated" are represented by banks, considered to be mid-size or small banks by the amount of total assets.

Analysis by credit quality of due from other banks outstanding at 31 December 2016 is as follows:

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Total
Neither past due nor impaired			
AA- to AA+ rated	1,637,794	–	**1,637,794**
A- to A+ rated	1,416,155	540,627	**1,956,782**
BBB- to BBB+ rated	411,357	477,294	**888,651**
B- to B+ rated	61,668	–	**61,668**
Unrated	186,163	836,949	**1,023,112**
Total neither past due nor impaired	**3,713,137**	**1,854,870**	**5,568,007**
Individually impaired loans			
more than 360 days overdue	–	248,819	**248,819**
Total individually impaired	**–**	**248,819**	**248,819**
Less allowance for impairment	–	(254,862)	**(254,862)**
Total due from other banks	**3,713,137**	**1,848,827**	**5,561,964**

Movements in the allowance for impairment of due from other banks during the year were as follows:

	Total due from other banks	
	2017	**2016**
Allowance for impairment at the beginning of the period	**254,862**	**153,738**
Charge for impairment during the reporting period	(473)	76,459
Translation differences	8,317	24,665
Allowance for impairment at the end of the period	**262,706**	**254,862**

As at 31 December 2017, term deposits placed with other banks in OECD and other countries of UAH 588,907 thousand (31 December 2016: UAH 1,628,473 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

(in thousands of Ukrainian hryvnias)

8. Due from other banks (continued)

As at 31 December 2017, UAH 1,122,825 thousand on current accounts and overnight deposits with other banks representing 19% of the total amount due from other banks were placed with one OECD bank with BBB+ rating confirmed by the international rating agencies (31 December 2016: UAH 1,337,406 thousand representing 23% of the total amounts due from other banks were placed with one OECD bank with AA rating confirmed by the international rating agencies).

9. Securities

Securities at fair value through profit or loss

	2017	2016
Ukrainian Government debt securities	162,887	277,873
Total securities at fair value though profit or loss	**162,887**	**277,873**

Securities available-for-sale

	2017	2016
Ukrainian Government debt securities	8,224,378	6,523,113
NBU deposit certificates	2,002,054	2,602,485
Total debt securities	**10,226,432**	**9,125,598**
including accrued interest income	***319,256***	***227,239***
Shares	7,057	7,057
Total securities available-for-sale	**10,233,489**	**9,132,655**

Analysis by credit quality of debt securities available-for-sale outstanding as at 31 December 2017 was as follows:

	Ukrainian Government debt securities	NBU deposit certificates	Total
Neither past due nor impaired			
B- rated	8,224,378	2,002,054	**10,226,432**
Total neither past due nor impaired	**8,224,378**	**2,002,054**	**10,226,432**
Total debt securities	**8,224,378**	**2,002,054**	**10,226,432**

Analysis by credit quality of debt securities available-for-sale outstanding as at 31 December 2016 was as follows:

	Ukrainian Government debt securities	NBU deposit certificates	Total
Neither past due nor impaired			
B- rated	6,523,113	2,602,485	**9,125,598**
Total neither past due nor impaired	**6,523,113**	**2,602,485**	**9,125,598**
Total debt securities	**6,523,113**	**2,602,485**	**9,125,598**

The credit ratings for Ukrainian Government debt securities' issuers and deposit certificates issued by the NBU are based on sovereign rating of Ukraine.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status.

As at 31 December 2017, deposit certificates issued by the NBU with nominal value of UAH 2,000,000 thousand (31 December 2016: UAH 1,600,000 thousand) with maturity up to 1 working day are classified by the Bank as cash and cash equivalents (Note 6).

As at 31 December 2017, the Ukrainian Government debt securities include state treasury bonds with maturity dates from 10 January 2018 through 23 December 2019 and the effective interest rates from 4% to 23% p.a. (31 December 2016: with maturity dates from 19 April 2017 through 23 December 2019 and the effective interest rates from 4% to 23% p.a.), and deposit certificate issued by the NBU with maturity date from 3 January 2018 and effective interest rate 13% p.a. (31 December 2016: with maturity dates from 4 January 2017 through 12 January 2017 and effective interest rate from 13% to 15% p.a.).

(in thousands of Ukrainian hryvnias)

10. Loans to customers

	2017	2016
Corporate loans	**25,324,687**	**27,881,470**
Less allowance for impairment	(5,501,375)	(6,557,846)
Total corporate loans less allowance for impairment	**19,823,312**	**21,323,624**
Loans to individuals		
Consumer loans	4,872,979	3,010,688
Mortgage loans	1,163,980	2,827,481
Car loans	129,546	317,533
Other loans to individuals	1,750,951	1,168,831
Less allowance for impairment	(2,245,169)	(3,892,402)
Total loans to individuals less allowance for impairment	**5,672,287**	**3,432,131**
Total loans to customers	**25,495,599**	**24,755,755**

Included in gross loans to customers as at 31 December 2017 were loans with fixed interest rates of UAH 33,179,728 thousand (31 December 2016: UAH 34,432,811 thousand) and loans with floating interest rates of UAH 62,415 thousand (31 December 2016: UAH 773,192 thousand).

Movements in allowance for loan impairment

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2017 were as follows:

	Corporate loans	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Allowance for impairment of loan portfolio at the beginning of the period	**6,557,846**	**830,758**	**2,524,323**	**291,507**	**245,814**	**10,450,248**
Charge to the allowance for impairment during the year	1,165,727	32,615	(86,526)	265	70,882	**1,182,963**
Recovery of loans written off in previous years	(20,848)	(1,615)	(1,850)	(340)	(1,158)	**(25,811)**
Utilisation of allowance	(2,305,174)	(40,669)	(1,447,162)	(166,926)	(1,038)	**(3,960,969)**
Translation differences	103,824	(98)	(4,072)	383	76	**100,113**
Allowance for impairment of loan portfolio at 31 December 2017	**5,501,375**	**820,991**	**984,713**	**124,889**	**314,576**	**7,746,544**

For the year ended 31 December 2017, the Bank refinanced mortgage loans to individuals in foreign currency into consumer loans in local currency. As at 31 December 2017, the carrying amount of such loans was UAH 50,988 thousand (31 December 2016: UAH 61,152 thousand). Net losses on refinancing of mortgage loans to individuals in foreign currency for the year ended 31 December 2017 was UAH 5,524 thousand (31 December 2016: UAH 28,508 thousand).

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Movements in allowance for loan impairment (continued)

Analysis of allowance for impairment by type and effective allowance rate as at 31 December 2017 was as follows:

	Corporate loans	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	5,117,216	–	196,288	–	–	**5,313,504**
Allowance recognised for loans collectively determined to be impaired	199,169	752,585	778,496	123,580	287,653	**2,141,483**
Allowance recognised on collective basis for loans without specific evidence of impairment	184,990	68,406	9,929	1,309	26,923	**291,557**
Total recognised allowance for loan impairment	**5,501,375**	**820,991**	**984,713**	**124,889**	**314,576**	**7,746,544**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	9,453,087	–	223,165	–	–	**9,676,252**
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	207,452	770,959	831,210	123,638	303,029	**2,236,288**
Gross amount of loans without specific evidence of impairment, before deducting any impairment allowance	15,664,148	4,102,020	109,605	5,908	1,447,922	**21,329,603**
Gross amount of loans before deducting any impairment allowance	**25,324,687**	**4,872,979**	**1,163,980**	**129,546**	**1,750,951**	**33,242,143**
Provisioning rate for individually impaired loans	54%	0%	88%	0%	0%	**55%**
Provisioning rate for collectively impaired loans	96%	98%	94%	100%	95%	**96%**
Provisioning rate for loans without specific evidence of impairment	1%	2%	9%	22%	2%	**1%**

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2016 were as follows:

	Corporate loans	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Allowance for impairment of loan portfolio at the beginning of the period	**5,985,411**	**1,342,086**	**2,655,724**	**258,050**	**289,943**	**10,531,214**
Charge to the allowance for impairment during the year	928,195	56,473	210,495	8,325	70,987	**1,274,475**
Recovery of loans written off in previous years	(758)	(3,291)	(142)	(32)	(4,185)	**(8,408)**
Utilization of allowance	(792,838)	(565,193)	(641,304)	(1,872)	(111,149)	**(2,112,356)**
Translation differences	437,836	683	299,550	27,036	218	**765,323**
Allowance for impairment of loan portfolio at 31 December 2016	**6,557,846**	**830,758**	**2,524,323**	**291,507**	**245,814**	**10,450,248**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Movements in allowance for loan impairment (continued)

Analysis of allowance for impairment by type and effective allowance rate as at 31 December 2016 was as follows:

	Corporate loans	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	6,016,470	19,546	470,317	4,679	–	**6,511,012**
Allowance recognised for loans collectively determined to be impaired	321,782	758,899	2,042,208	283,254	212,094	**3,618,237**
Allowance recognised on collective basis for loans without specific evidence of impairment	219,594	52,313	11,798	3,574	33,720	**320,999**
Total recognised allowance for loan impairment	**6,557,846**	**830,758**	**2,524,323**	**291,507**	**245,814**	**10,450,248**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	10,041,277	21,063	519,027	4,679	–	**10,586,046**
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	383,517	780,160	2,160,319	293,776	222,408	**3,840,180**
Gross amount of loans without specific evidence of impairment, before deducting any impairment allowance	17,456,676	2,209,465	148,135	19,078	946,423	**20,779,777**
Gross amount of loans before deducting any impairment allowance	**27,881,470**	**3,010,688**	**2,827,481**	**317,533**	**1,168,831**	**35,206,003**
Provisioning rate for individually impaired loans	60%	93%	91%	100%	0%	**62%**
Provisioning rate for collectively impaired loans	84%	97%	95%	96%	95%	**94%**
Provisioning rate for loans without specific evidence of impairment	1%	2%	8%	19%	4%	**2%**

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: securities;
- For commercial lending: charges over real estate property, inventory and trade receivables, deposits;
- For retail lending: property rights for movable and immovable property, deposits.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2017, loans were secured by customer deposits with the Bank of UAH 381,960 thousand (31 December 2016: UAH 148,416 thousand) (Note 14).

10. Loans to customers (continued)

Credit quality of the loan portfolio

The loan portfolio quality is managed by using the Bank's internal credit ratings. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The following data is analysed by the Bank while determining corporate borrower's rating:

- Existence of first class collateral;
- Rating, calculated under internal rating model.

High rating (loans with first class cash coverage) has the following characteristics: expanding operating activity of a borrower, stable financial position (sufficient equity, low dependency of external sources of funding), high efficiency of business model. The entities with high rating are either the market leaders or have stable market position, highly effective management and organisational structure. The risk of loan quality deterioration is minimal, credit history – excellent.

Standard rating is assigned to borrowers with stable volumes of operating activity, with performance effectiveness at industry average. There is some dependency on external sources of funding. The risk of default is low. The entities with standard rating have stable market position at the regional and national level. These are entities with adequate management and organisational structure. Credit history is positive, with insignificant technical delays in repayment of borrowings.

Below standard rating is assigned to the borrowers with unstable or decreasing operational activities, low business efficiency, high dependency of external sources of funding, repayment of loan with cash inflows might be problematic and therefore the risk of default is high. Credit history can be characterized by existence of significant overdue payments. Market position is not stable, the decrease or loss of market share is possible.

The description of internal credit ratings used by the Bank for retail borrowers is provided below.

High rating is assigned to the borrowers with strong financial position. Creditworthiness and solvency are significantly above loan servicing level. Risk of creditworthiness deterioration is minimal.

Standard rating is assigned to the borrowers with stable financial position. Creditworthiness and solvency are sufficient for the loan servicing. The risk of default is low.

Below standard rating is assigned to the borrowers with unstable or worsening financial position. Creditworthiness and solvency are marginally sufficient for the loan servicing. The risk of default is increasing due to negative impact of external factors on cash flows available for the repayment of loan.

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Credit quality of the loan portfolio (continued)

Analysis by credit quality of loans outstanding as at 31 December 2017 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Without individual evidence of impairment						
Neither past due nor impaired						
- high rating	7,590,808	3,974,575	1,532	26	110,408	**11,677,349**
- standard rating	6,596,438	–	–	–	–	**6,596,438**
- below standard rating	1,127,960	1,836	101,789	5,245	1,090,840	**2,327,670**
Total neither past due nor impaired	**15,315,206**	**3,976,411**	**103,321**	**5,271**	**1,201,248**	**20,601,457**
Past due but not impaired						
- less than 30 days overdue	348,942	93,310	5,090	483	216,636	**664,461**
- 31 to 90 days overdue	–	32,300	1,194	154	24,557	**58,205**
- 91 to 180 days overdue	–	–	–	–	5,430	**5,430**
- 181 to 360 days overdue	–	–	–	–	20	**20**
- more than 360 days overdue	–	–	–	–	30	**30**
Total past due but not impaired	**348,942**	**125,610**	**6,284**	**637**	**246,673**	**728,146**
With individual evidence of impairment						
Loans determined to be impaired individually or collectively						
- less than 30 days overdue	5,040,129	5,617	32,334	51	8,317	**5,086,448**
- 31 to 90 days overdue	2,480,784	2,199	1,314	37	1,749	**2,486,083**
- 91 to 180 days overdue	1,940	27,729	613	84	15,049	**45,415**
- 181 to 360 days overdue	823,551	46,927	8,040	352	38,776	**917,646**
- more than 360 days overdue	1,314,135	688,486	1,012,074	123,114	239,139	**3,376,948**
Loans determined to be impaired individually or collectively	**9,660,539**	**770,958**	**1,054,375**	**123,638**	**303,030**	**11,912,540**
Less allowance for impairment	**(5,501,375)**	**(820,991)**	**(984,713)**	**(124,889)**	**(314,576)**	**(7,746,544)**
Total loans to customers	**19,823,312**	**4,051,988**	**179,267**	**4,657**	**1,436,375**	**25,495,599**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Credit quality of the loan portfolio (continued)

Analysis by credit quality of loans outstanding as at 31 December 2016 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Without individual evidence of impairment						
Neither past due nor impaired						
- high rating	4,697,005	6,636	30,795	10,884	48,602	**4,793,922**
- standard rating	1,088,821	345,064	28,128	2,787	4,073	**1,468,873**
- below standard rating	11,636,633	1,760,410	78,853	3,113	687,196	**14,166,205**
Total neither past due nor impaired	**17,422,459**	**2,112,110**	**137,776**	**16,784**	**739,871**	**20,429,000**
Past due but not impaired						
- less than 30 days overdue	32,384	68,963	6,029	1,999	162,315	**271,690**
- 31 to 90 days overdue	1,832	28,392	4,328	294	38,790	**73,636**
- 91 to 180 days overdue	–	–	–	–	5,427	**5,427**
- 181 to 360 days overdue	–	–	–	–	10	**10**
- more than 360 days overdue	–	–	–	–	14	**14**
Total past due but not impaired	**34,216**	**97,355**	**10,357**	**2,293**	**206,556**	**350,777**
With individual evidence of impairment						
Loans determined to be impaired individually or collectively						
- less than 30 days overdue	5,375,868	8,286	32,628	169	5,630	**5,422,581**
- 31 to 90 days overdue	13,234	3,653	2,298	195	5,764	**25,144**
- 91 to 180 days overdue	19,856	26,777	4,970	512	15,661	**67,776**
- 181 to 360 days overdue	566,512	74,433	30,249	877	31,532	**703,603**
- more than 360 days overdue	4,449,325	688,073	2,609,201	296,702	163,821	**8,207,122**
Loans determined to be impaired individually or collectively	**10,424,795**	**801,222**	**2,679,346**	**298,455**	**222,408**	**14,426,226**
Less allowance for impairment	**(6,557,846)**	**(830,759)**	**(2,524,324)**	**(291,506)**	**(245,813)**	**(10,450,248)**
Total loans to customers	**21,323,624**	**2,179,928**	**303,155**	**26,026**	**923,022**	**24,755,755**

Concentration of loans to customers

As at 31 December 2017, the Bank's 20 largest borrowers, with aggregate loan amount of UAH 12,833,634 thousand, represented 39% of the gross loan portfolio (31 December 2016: UAH 14,782,232 thousand issued to 20 largest borrowers represented 42% of the gross loan portfolio).

The loan portfolio of the Bank by economic sectors, the credit risk of which has an impact on the credit quality, is as follows:

	2017	2016
Individuals	7,917,456	7,324,533
Trade and agency services	6,682,255	6,418,500
Property development	4,914,504	4,943,195
Food industry and agriculture	3,877,260	4,940,478
Machine building	2,413,628	3,103,737
Metallurgy	1,919,896	2,019,136
Mining and energy	1,663,142	2,535,763
Non-banking financial institutions	1,394,675	1,288,264
Woodworking	767,816	788,011
Chemical	233,378	244,776
Transport, communication and infrastructure	208,707	109,128
Other	1,249,426	1,490,482
Total loans to customers (before allowance for impairment)	**33,242,143**	**35,206,003**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Concentration of loans to customers (continued)

The Bank's lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and the Ukrainian economy.

The financial effect of collateral is presented by disclosing collateral values separately for:

- Those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets"); and
- Those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral as at 31 December 2017 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value net of allowance	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**
Corporate loans	10,549,258	19,884,740	9,274,054	3,899,456
Consumer loans	2,138	8,595	4,049,850	–
Mortgage loans	98,205	666,932	81,062	42,850
Car loans	4,657	111,034	–	–
Other loans to individuals	1,491	5,686	1,434,884	–
Total	**10,655,749**	**20,676,987**	**14,839,850**	**3,942,306**

Effect of collateral as at 31 December 2016 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value net of allowance	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**
Corporate loans	6,849,057	13,467,911	14,474,567	5,021,239
Consumer loans	2,374	24,091	2,177,556	–
Mortgage loans	201,024	1,377,143	102,132	50,019
Car loans	25,860	293,335	167	73
Other loans to individuals	2,164	7,364	920,854	–
Total	**7,080,479**	**15,169,844**	**17,675,276**	**5,071,331**

The decrease in under-collateralised loans in 2017 as compared to 2016 is due to additional collateral and repayment of loans which in the prior period were categorised as under-collateralised.

(in thousands of Ukrainian hryvnias)

11. Property and equipment, investment property and intangible assets

	Premises	Leasehold improve-ments	Works of arts	Computers and other equipment	Capital investments in property and equip-ment	Total property and equip-ment	Intangible assets	Total
Cost or revalued amount at 1 January 2016	**1,264,999**	**59,138**	**17,014**	**638,240**	**24,880**	**2,004,271**	**436,026**	**2,440,297**
Accumulated depreciation and amortization	(281,964)	(38,892)	–	(474,392)	–	**(795,248)**	(192,727)	**(987,975)**
Carrying amount at 1 January 2016	**983,035**	**20,246**	**17,014**	**163,848**	**24,880**	**1,209,023**	**243,299**	**1,452,322**
Additions	–	–	–	32,156	129,398	**161,554**	117,693	**279,247**
Disposals/write-offs	(9)	(349)	–	(2,065)	–	**(2,423)**	(52)	**(2,475)**
Transfers to another category	4,890	15,065	(9)	125,709	(145,655)	**–**	–	**–**
Transfers to investment property	(14,491)	–	–	–	–	**(14,491)**	–	**(14,491)**
Revaluation	(28,056)	–	–	–	–	**(28,056)**	–	**(28,056)**
Impairment of fixed assets in ATO zone	(6,722)	–	–	–	–	**(6,722)**	–	**(6,722)**
Depreciation and amortisation charge	(24,222)	(13,910)	–	(67,358)	–	**(105,490)**	(73,362)	**(178,852)**
Carrying amount at 31 December 2016	**914,425**	**21,052**	**17,005**	**252,290**	**8,623**	**1,213,395**	**287,578**	**1,500,973**
Cost or revalued amount at 31 December 2016	**1,209,150**	**70,192**	**17,005**	**758,056**	**8,623**	**2,063,026**	**550,636**	**2,613,662**
Accumulated depreciation and amortization	(294,725)	(49,140)	–	(505,766)	–	**(849,631)**	(263,058)	**(1,112,689)**
Carrying amount at 31 December 2016	**914,425**	**21,052**	**17,005**	**252,290**	**8,623**	**1,213,395**	**287,578**	**1,500,973**
Additions	–	–	–	114,052	117,559	**231,611**	138,091	**369,702**
Disposals/write-offs	–	(265)	–	(42)	–	**(307)**	(8)	**(315)**
Transfers to another category	5,349	15,192	–	102,189	(122,730)	**–**	–	**–**
Transfers to investment property	(12,029)	–	–	–	–	**(12,029)**	–	**(12,029)**
Impairment of fixed assets in ATO zone	(50,017)	–	–	–	–	**(50,017)**	–	**(50,017)**
Depreciation and amortisation charge	(22,812)	(8,100)	–	(97,946)	–	**(128,858)**	(125,658)	**(254,516)**
Carrying amount at 31 December 2017	**834,916**	**27,879**	**17,005**	**370,543**	**3,452**	**1,253,795**	**300,003**	**1,553,798**
Cost or revalued amount at 31 December 2017	**1,206,020**	**83,138**	**17,005**	**908,380**	**3,452**	**2,217,995**	**612,534**	**2,830,529**
Accumulated depreciation and amortization	(371,104)	(55,259)	–	(537,837)	–	**(964,200)**	(312,531)	**(1,276,731)**
Carrying amount at 31 December 2017	**834,916**	**27,879**	**17,005**	**370,543**	**3,452**	**1,253,795**	**300,003**	**1,553,798**

As at 31 December 2017, the Bank's own premises, furniture, equipment, leasehold improvements and ATMs, with net book value of UAH 1,328,173 thousand (31 December 2016: UAH 1,300,760 thousand) were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

As at 31 December 2017, property and equipment and intangible assets with a gross book value or revalued amount of UAH 534,255 thousand were fully depreciated or amortised (31 December 2016: UAH 471,305 thousand). These assets are still used by the Bank.

As at 1 December 2017, an independent valuation of the Bank's own premises was carried out, the results of which led the Bank to conclude that the fair value does not differ significantly from their carrying amount.

(in thousands of Ukrainian hryvnias)

11. Property and equipment, investment property and intangible assets (continued)

As at 31 December 2017, the carrying amount of premises and works of art would have been UAH 317,327 thousand (31 December 2016: UAH 368,896 thousand) had these assets been measured using the cost model. The amount reconciles to the carrying value of the premises and works of art as follows:

	2017	2016
Premises at revalued amount in the statement of financial position	834,916	914,425
Revaluation reserve presented in equity, net of tax	(520,400)	(548,340)
Premises at cost less accumulated depreciation and impairment	**314,516**	**366,085**
Works of art at revalued amount in the statement of financial position	17,005	17,005
Revaluation reserve on works of art presented in equity, net of tax	(14,194)	(14,194)
Works of art at cost less accumulated depreciation and impairment	**2,811**	**2,811**
Total premises and works of art	**317,327**	**368,896**

Changes in carrying value of investment property were as follows:

	2017	2016
Fair value of investment property at the beginning of the period	**185,857**	**188,554**
Sale	(24,396)	(15,594)
Transfer from owner-occupied premises	12,029	14,491
Transfer to repossessed property collateral	(27,725)	(5,016)
Fair value gains	12,401	19,145
Fair value losses	(8,819)	(15,723)
Fair value of investment property at the end of the period	**149,347**	**185,857**

The rental income received from investment property in 2017 was UAH 11,715 thousand (2016: UAH 7,936 thousand) (Note 25). The operating and maintenance expenses on investment property in 2017 were UAH 2,154 thousand (2016: UAH 2,180 thousand).

12. Other assets

	2017	2016
Financial assets		
Settlements on card operations	121,050	99,052
Accrued income and settlements	67,142	53,294
Settlements on cooperation agreements	62,109	53,103
Receivables on transfers and payments	35,055	43,866
Purchase of foreign currency	3,629	1,793
Derivative financial instruments (Note 20)	3,336	27,853
Other financial assets	4,741	11,070
Allowance for impairment	(35,236)	(38,523)
Total financial assets	**261,826**	**251,508**
Non-financial assets		
Repossessed real estate collateral	263,804	212,290
Prepayments for property and equipment and intangible assets	96,611	10,175
Prepaid expenses, including for assets insurance	38,273	26,081
Prepayments for other taxes	22,884	23,235
Prepayments for services	9,093	2,949
Precious metals	166	784
Other non-financial assets	7,281	4,279
Allowance for impairment	(2,840)	(2,784)
Total non-financial assets	**435,272**	**277,009**
Total other assets	**697,098**	**528,517**

(in thousands of Ukrainian hryvnias)

12. Other assets (continued)

Movements in allowance for impairment of other financial assets during the year were as follows:

	2017	2016
Allowance for impairment at the beginning of the period	**38,523**	**48,906**
Charge for impairment	10,218	7,610
Assets written off during the year as uncollectible	(14,214)	(19,309)
Effect of changes in exchange rates	709	1,316
Allowance for impairment at the end of the period	**35,236**	**38,523**

Movements in allowance for impairment of other non-financial assets during the year were as follows:

	2017	2016
Allowance for impairment at the beginning of the period	**2,784**	**487**
Charge for impairment during the reporting period	25	2,607
Assets written off during the year as uncollectible	–	(310)
Recovery	31	–
Allowance for impairment at the end of the period	**2,840**	**2,784**

13. Due to other banks

	2017	2016
Current accounts of other banks		
- Domestic	392,293	861,606
- OECD countries	60	542
Total current accounts of other banks	**392,353**	**862,148**
Term deposits of other banks		
- Domestic	292,410	225,380
Total term deposits of other banks	**292,410**	**225,380**
Loans received from other banks		
- Domestic	180,241	60,361
Total loans received from other banks	**180,241**	**60,361**
Total amounts due to other banks	**865,004**	**1,147,889**

As at 31 December 2017, placements of 10 largest banks of UAH 653,513 thousand made 76% of total amounts due to other banks (31 December 2016: UAH 952,594 thousand, 83%).

14. Customer accounts

	2017	2016
Legal entities		
- Current accounts	13,279,220	12,966,859
- Term deposits	8,408,626	5,505,474
Individuals		
- Current accounts	4,377,968	3,454,739
- Term deposits	11,128,462	11,258,444
Total customer accounts	**37,194,276**	**33,185,516**

As at 31 December 2017, the Bank's 10 largest customers, with an aggregate amount of accounts of UAH 5,545,493 thousand represented 15% of customer accounts (31 December 2016: UAH 2,736,066 thousand, or 8%).

As at 31 December 2017, included in customer accounts were deposits of UAH 381,960 thousand (31 December 2016: UAH 148,416 thousand) held as part of collateral for loans to customers (Note 10) and credit related commitments with a carrying amount of UAH 59,292 thousand (31 December 2016: UAH 70,199 thousand). In addition, UAH 579,240 thousand (31 December 2016: UAH 1,582,123 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 30).

(in thousands of Ukrainian hryvnias)

14. Loans to customers (continued)

Economic sector concentrations within customer accounts were as follows:

	2017	2016
Individuals	15,506,430	14,713,183
Metallurgy	4,415,315	2,475,878
Trade and agency services	3,935,843	3,251,384
Transport, communication and infrastructure	2,891,580	2,369,707
Machine building	2,706,123	2,784,093
Mining and energy	2,520,664	2,766,934
Property development	1,187,893	856,441
Non-banking financial institutions	649,385	762,283
Food industry and agriculture	463,541	332,127
Chemical	170,224	241,124
Woodworking	68,775	77,351
Other	2,678,503	2,555,011
Total customer accounts	**37,194,276**	**33,185,516**

15. Deposit certificates issued

In February 2016, the Bank has started to issue the deposit certificates with the interest rate from 2.8% to 5.2%. As at 31 December 2017, the Bank had the following deposit certificates:

	2017	2016
Deposit certificates denominated in USD	187,194	583,573
Deposit certificates denominated in EUR	–	107,798
Total deposit certificates issued	**187,194**	**691,371**

16. Eurobonds issued

According to the repayment schedule, in September and December 2016 the Bank repaid part of the eurobonds of USD 39,512 thousand being UAH 1,041,588 thousand in the equivalent as at the repayment date.

In June 2017, the Bank successfully completed a public redemption of Eurobonds in the form of a modified Dutch auction for the total nominal amount of USD 15,981 thousand, or 13.48% of the total amount at the price of 103.0% of the nominal value.

During 2017, the Bank repaid a part of the eurobonds in the amount of USD 89,678 thousand being UAH 2,394,876 thousand in the equivalent as at the repayment date. As at 31 December 2017, the carrying value of the eurobonds is USD 68,230 thousand being UAH 1,915,014 thousand in the equivalent (31 December 2016: USD 157,793 thousand being UAH 4,290,540 thousand in the equivalent).

17. Other borrowed funds

As at 31 December 2017 and 2016, other borrowed funds included a loan received from Landesbank Berlin AG. The loan from Landesbank Berlin AG is denominated in Euros and bears interest at a weighted average rate of EURIBOR + 0.25% p.a. on the outstanding amount with maturity on 6 September 2018. The interest is accrued on the outstanding amount of the loan. The loan was received for the purpose of financing the acquisition of imported equipment by Bank's customers. As at 31 December 2017, other borrowed funds comprised UAH 11,193 thousand (31 December 2016: UAH 18,995 thousand). In 2017, the loan was partially repaid for the amount of EUR 332 thousand being UAH 9,888 thousand in the equivalent as at the repayment date.

(in thousands of Ukrainian hryvnias)

18. Other liabilities

	2017	2016
Financial liabilities		
Amounts in settlements	503,762	271,174
Payable under operations with plastic cards	79,647	73,085
Deferred income on credit lines	33,612	35,551
Derivative financial liabilities (Note 20)	10,355	53,070
Provision for commitments, guarantees and letters of credit (Note 30)	7,645	11,516
Other financial liabilities	2,556	1,632
Total financial liabilities	**637,577**	**446,028**
Non-financial liabilities		
Amounts payable to employees	236,505	147,768
Amounts payable for services	70,360	31,626
Contributions to Individuals Deposits Guarantee Fund	27,506	26,922
Other taxes payable	16,379	19,464
Provision for other losses	2,987	2,083
Other non-financial liabilities	5,418	5,361
Total non-financial liabilities	**359,155**	**233,224**
Total other liabilities	**996,732**	**679,252**

19. Subordinated debt

As at 31 December 2017, the Bank had three deposits attracted under subordinated debt terms.

The first subordinated loan in UAH was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 127,300 thousand carrying an interest rate of 12.75% p.a. and maturing in November 2014. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2017, the carrying amount of the attraction was UAH 128,616 thousand (31 December 2016: UAH 128,652 thousand).

The second subordinated loan was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 135,000 thousand bearing 12.75% p.a. and maturing in November 2014. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2017, the carrying amount of the attraction was UAH 136,394 thousand (31 December 2016: UAH 136,432 thousand).

The third subordinated loan was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 220,000 thousand carrying an interest rate of 9.5% p.a. and maturing in October 2015. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2017, the carrying amount of the attraction was UAH 224,646 thousand (31 December 2016: UAH 225,666 thousand).

20. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities.

As at 31 December 2017, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH / Attraction of USD	126,308	(127,650)	192	(1,534)
Placement of UAH / Attraction of EUR	357,991	(361,685)	–	(3,694)
Placement of USD / Attraction of EUR	4,161	(4,146)	15	–
Total forward currency contracts	**488,460**	**(493,481)**	**207**	**(5,228)**
Forward contracts on securities				
To sell securities	555,631	(557,629)	3,129	(5,127)
Total forward contracts on securities	**555,631**	**(557,629)**	**3,129**	**(5,127)**

(in thousands of Ukrainian hryvnias)

20. Derivative financial instruments (continued)

As at 31 December 2016, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH / Attraction of EUR	141,505	(139,263)	2,242	–
Placement of UAH / Attraction of USD	1,650,453	(1,627,081)	24,778	(1,406)
Attraction of UAH / Placement of EUR	19,313	(19,622)	–	(309)
Attraction of UAH / Placement of USD	1,256,832	(1,277,712)	–	(20,880)
Total forward currency contracts	**3,068,103**	**(3,063,678)**	**27,020**	**(22,595)**
Forward contracts on securities				
To sell securities	759,686	(789,912)	–	(30,226)
To buy securities	408,032	(407,448)	833	(249)
Total forward contracts on securities	**1,167,718**	**(1,197,360)**	**833**	**(30,475)**

21. Share capital and other reserves

As at 31 December 2017, the Bank's approved and authorised share capital comprised 14,323,880 ordinary shares with a nominal value of UAH 230 per share. All shares have equal voting rights. As at 31 December 2017, all shares were fully paid and registered.

Nature and purpose of reserves

Revaluation reserve for property and equipment

Revaluation reserve for property and equipment is used to reflect the fair value of premises and works of art, and its decrease, but to the extent this reduction relates to increasing the value of the same asset previously recognized in equity.

Unrealized gains from securities available-for-sale

This reserve reflects the fair value of securities available-for-sale.

Bank's reserve fund

The Bank's reserve fund is created under the Charter and the laws of Ukraine up to reaching 25 percent of regulatory capital at the beginning of each year. The amount of deductions to the reserve fund is not less than 5 percent of the annual income of the Bank. The reserve fund is created to cover general banking risks, including future losses and other unforeseen losses in all asset items and off-balance sheet liabilities.

22. Segment analysis

The information on main banking segments of the Bank as at 31 December 2017 is set out below:

2017	Corporate banking	Retail banking	Distressed assets management	Investment banking	Unallocated	Total
Segment assets	**19,739,242**	**6,197,500**	**604,269**	**16,586,171**	**3,405,147**	**46,532,329**
Including:						
Loans to customers, net	19,553,435	5,620,745	321,419	–	–	**25,495,599**
- loans to customers, gross	23,597,797	6,921,899	2,722,447	–	–	**33,242,143**
- allowance	(4,044,362)	(1,301,154)	(2,401,028)	–	–	**(7,746,544)**
Other financial statements items	185,807	576,755	282,850	16,586,171	3,405,147	**21,036,730**
Segment liabilities	**21,773,062**	**15,718,083**	**–**	**2,500,965**	**1,666,959**	**41,659,069**
Including:						
Customer accounts	21,687,846	15,506,430	–	–	–	**37,194,276**
Other financial statements items	85,216	211,653	–	2,500,965	1,666,959	**4,464,793**

(in thousands of Ukrainian hryvnias)

22. Segment analysis (continued)

The information on profit and loss of the reportable operating segments of the Bank for 2017 is set out below:

2017	Corporate banking	Retail banking	Distressed assets management	Investment banking	Unallocated	Total
Interest income	2,508,075	1,349,109	58,564	1,160,203	86,093	**5,162,044**
Interest expense	(873,823)	(860,960)	–	(363,296)	(55,369)	**(2,153,448)**
Transfers	(377,910)	665,187	(114,360)	(784,827)	611,910	**–**
Net interest income	**1,256,342**	**1,153,336**	**(55,796)**	**12,080**	**642,634**	**3,008,596**
Net fee and commission income	138,236	526,218	230,246	102,961	270,921	**1,268,582**
Trading income	164,211	41,684	371	177,603	–	**383,869**
(Operating expenses) and other income/ (expenses)	(615,472)	(1,243,456)	(322,631)	(35,498)	(334,741)	**(2,551,798)**
Allowances	(1,235,264)	(73,324)	149,388	473	2,048	**(1,156,679)**
Segment result	**(291,947)**	**404,458**	**1,578**	**257,619**	**580,862**	**952,570**
Income tax expense	51,104	(70,798)	(276)	(45,095)	(101,678)	**(166,743)**
Net income/(loss) for the year	**(240,843)**	**333,660**	**1,302**	**212,524**	**479,184**	**785,827**

The information on main banking segments of the Bank as at 31 December 2016 is set out below:

2016	Corporate banking	Retail banking	Distressed assets management	Investment banking	Unallocated	Total
Segment assets	**22,238,742**	**3,737,957**	**717,573**	**15,065,121**	**2,793,215**	**44,552,608**
Including						
Loans to customers, net	21,046,624	3,300,891	408,240	–	–	**24,755,755**
- loans to customers, gross	25,461,144	5,017,888	4,726,971	–	–	**35,206,003**
- allowance	(4,414,520)	(1,716,997)	(4,318,731)	–	–	**(10,450,248)**
Other financial statements items	1,192,118	437,066	309,333	15,065,121	2,793,215	**19,796,853**
Segment liabilities	**19,039,193**	**15,127,622**	**–**	**5,266,971**	**1,070,527**	**40,504,313**
Including						
Customer accounts	18,472,342	14,713,174	–	–	–	**33,185,516**
Other financial statements items	566,851	414,448	–	5,266,971	1,070,527	**7,318,797**

The information for profit and loss of the reportable operating segments of the Bank for 2016 is set out below:

2016	Corporate banking	Retail banking	Distressed assets management	Investment banking	Unallocated	Total
Interest income	3,042,755	1,045,278	141,657	737,007	79,060	5,045,757
Interest expense	(990,370)	(1,297,973)	–	(570,117)	(55,021)	(2,913,481)
Transfers	(1,276,376)	1,273,824	(218,224)	(307,960)	528,736	–
Net interest income	**776,009**	**1,021,129**	**(76,567)**	**(141,070)**	**552,775**	**2,132,276**
Net fee and commission income	154,483	372,614	173,067	91,861	188,908	980,933
Trading income	90,172	24,596	–	314,934	–	429,702
(Operating expenses) and other income/(expenses)	(318,615)	(844,179)	(292,514)	(25,894)	(271,609)	(1,752,811)
Allowances	(943,859)	(159,075)	(140,409)	(6,095)	(93,088)	(1,342,526)
Segment result	**(241,810)**	**415,085**	**(336,423)**	**233,736**	**376,986**	**447,574**
Income tax expense	43,526	(74,715)	60,556	(42,072)	(67,858)	(80,563)
Net income/(loss) for the year	**(198,284)**	**340,370**	**(275,867)**	**191,664**	**309,128**	**367,011**

22. Segment analysis (continued)

The respective operating segments were formed according to the Bank's approved business development and management.

The information concerns services rendered within segments and is presented to the management of the Bank responsible for decision making for the purpose of resources allocation and segment performance assessment.

For the purpose of internal management reporting, the transactions of the Bank are split into the following segments:

Corporate business: This business segment includes serving current accounts of legal entities, attraction of deposits, granting credit lines in "overdraft" form, serving card accounts, granting loans and other types of finance as well as foreign exchange and trade finance transactions.

The corporate business segment consists of the following sub-segments: LCC (large corporate clients with annual turnover from UAH 400,000 thousand or the Bank's insiders according to requirements of the National Bank of Ukraine), MCC (medium-size corporate clients with annual turnover from UAH 80,000 thousand to UAH 400,000 thousand or the limit of asset transactions per client from UAH 16,000 thousand), SCC (small and micro corporate clients with annual turnover up to UAH 80,000 thousand or the limit of asset transactions per client up to UAH 16,000 thousand), SC (state-owned companies with a share of state or communal ownership not less than 10% of the charter capital).

Retail banking: Provision of banking services to individuals. This segment includes the same types of banking services as the segment of corporate banking servicing as well as the services of opening and maintenance of accounts of private entrepreneurs and individuals, including the accounts for personal usage, current and saving accounts, attraction of deposits, servicing of credit and debit cards under salary projects, mortgage and car lending and targeted lending in commercial networks.

Distressed asset management: This business segment includes the workout of corporate, retail loans and securities having the following evidence of impairment:

- individual assessments of impairment;
- payment delay (from 180 days of principal amount delay for retail and 30 days for corporate clients);
- other evidence of impairment according to the internal assessments by the management.

This business segment renders services of restructuring and past-due debt collection.

Investment banking: Investment banking activities This segment covers financial instruments trade, transactions on the inter-bank market, transactions on capital markets, transactions with securities, foreign exchange and banknotes for the purpose of income gaining.

Unallocated items: This segment covers asset and liability management centre (is a main regulator of transfer pricing in the Bank and includes the transactions aimed at liquidity support of the Bank's activity); Head Office (this segment includes fixed assets, corporate rights, deferred tax assets, advances and receivables related to administrative and economic activity of the Bank); and the Processing Centre (this segment includes informational and technical support to payment card settlements).

Capital expenditure is not included into the segment information reviewed by the Management Board. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Revenues for each individual country are not reported to the chief operational decision maker as they are mainly represented by revenues from Ukraine, including revenues from off-shore companies of Ukrainian customers, based on the domicile of the customer. Revenues from other countries do not exceed 10% of total revenues of the Bank. Revenues include interest and commission income.

The Bank has no customer for which the revenue represents 10% or more of the total revenues.

(in thousands of Ukrainian hryvnias)

23. Interest income and expense

	2017	2016
Interest income		
Loans to customers		
- legal entities	2,647,297	3,251,971
- individuals	1,367,016	1,099,209
Securities available-for-sale	1,045,948	550,435
Due from other banks	69,701	85,602
	5,129,962	**4,987,217**
Securities at fair value through profit or loss	32,082	58,540
Total interest income	**5,162,044**	**5,045,757**
Interest expense		
Individuals		
- term deposits	(850,308)	(1,285,214)
- current accounts	(3,832)	(3,378)
Legal entities		
- term deposits	(450,635)	(417,654)
- current accounts	(418,035)	(530,157)
Eurobonds issued	(359,666)	(556,757)
Subordinated debt	(53,242)	(52,985)
Deposit certificates issued	(10,812)	(10,459)
Due to other banks	(6,675)	(17,415)
Due to the National Bank of Ukraine	–	(39,065)
Other borrowed funds	(243)	(397)
Total interest expense	**(2,153,448)**	**(2,913,481)**
Net interest income	**3,008,596**	**2,132,276**

Information on interest income and expenses from transactions with related parties is set out in Note 31.

24. Fee and commission income and expense

	2017	2016
Payment cards	512,333	420,380
Settlement transactions with customers	455,215	353,679
Servicing loans, including under cooperation agreements	359,912	222,477
Conversion operations	214,070	188,690
Cash deposits and withdrawals	102,629	68,203
Documentary operations	64,671	61,979
Fiduciary activities	4,526	3,197
Other	14,871	10,725
Fee and commission income	**1,728,227**	**1,329,330**
Payment cards	(321,601)	(246,088)
Agent agreements	(61 954)	(52 654)
Servicing loans	(30 702)	(13 846)
Settlement transactions	(25,605)	(20,881)
Purchase and collection of cash	(12,315)	(8,019)
Documentary operations	(5,152)	(5,089)
Fiduciary activities	(1,323)	(585)
Other	(993)	(1,235)
Fee and commission expense	**(459,645)**	**(348,397)**
Net fee and commission income	**1,268,582**	**980,933**

Information on fee and commission income and expenses from transactions with related parties is set out in Note 31.

(in thousands of Ukrainian hryvnias)

25. Other income

	2017	2016
Penalties received	266,849	43,477
Income from compensation of insured losses	26,854	517
Income from disposal of property and equipment	20,441	27,297
Other rental income	12,878	15,269
Rental income from investment properties (Note 11)	11,715	7,936
Dividends received	5,355	4,307
Return of interest paid in past years due to early cancellation of deposit agreement	598	105
Revaluation of property and equipment	–	4,365
Other income	8,765	6,363
Total other income	**353,455**	**109,636**

26. Operating expenses

	2017	2016
Salary, employee benefits and compulsory contributions to State funds	1,298,113	869,813
Decrease in value of the Bank's property	398,570	49,570
Depreciation and amortisation (Note 11)	254,516	178,852
Non-performing loans settlement expenses	175,351	174,088
Lease of premises	142,869	113,006
Maintenance of premises and equipment	127,346	83,658
Contributions to Individuals Deposits Guarantee Fund	107,414	117,771
Advertising, entertainment expenses	68,662	50,130
Communication	57,568	50,840
Provision for impairment of assets located in ATO zone (Note 11)	50,017	6,722
Audit, legal, consulting services	41,328	34,576
State duties and taxes, other than income tax	29,398	10,602
Security services	28,422	14,343
Staff training	11,949	7,897
Provision for impairment of other assets (Note 12)	10,243	10,217
Other	105,020	67,789
Total operating expenses	**2,906,786**	**1,839,874**

Included in salary, employee benefits and compulsory contributions to State funds was the unified social tax in the amount of UAH 178,032 thousand (2016: UAH 115,244 thousand).

27. Income taxes

Income tax expense was comprised of the following:

	2017	2016
Deferred tax expense	166,743	80,563
Income taxes expense for the reporting period	**166,743**	**80,563**

The Bank's income for 2017 is taxable at the rate of 18% (2016: 18%). The reconciliation between the expected and the actual income tax expense is provided below:

	2017	2016
Income before tax	**952,570**	**447,574**
Theoretical tax benefit at the applicable statutory rate	171,463	80,563
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-taxable income	(1,324)	(1,297)
- Non-deductible expenses	11,463	3,572
- Expenses recognised only in tax accounting	(3,586)	(2,275)
- Adjustments of current income tax related to the previous periods	(11,273)	–
Income tax expense for the year	**166,743**	**80,563**

(in thousands of Ukrainian hryvnias)

27. Income taxes (continued)

The differences between the national and IFRS taxation result in specific temporary differences arising between the carrying values of some assets and liabilities for the purposes of financial reporting and their tax bases. The tax effect of changes in such temporary differences shall be accounted for at the income tax rates expected to be applied in the period of realization of such differences.

Deferred tax assets and liabilities as at 31 December 2017 and 2016 and their movements for the respective years are as follows:

	31 December 2016	Credited/ (charged) to other comprehensive income	Credited/ (charged) to income statement	31 December 2017
Tax effect of deductible and taxable temporary differences				
Allowances for loan impairment and credit related commitments	(40,975)	–	43,400	2,425
Securities available-for-sale	(6,619)	(8,591)	–	(15,210)
Property and equipment and investment property	6,978	–	6,227	13,205
Other	4,294	–	(4,294)	–
Estimated net deferred tax liability	**(36,322)**	**(8,591)**	**45,333**	**420**
Tax losses carry forward	224,041	–	(212,076)	11,965
Net deferred tax asset	**187,719**	**(8,591)**	**(166,743)**	**12,385**

	31 December 2015	Credited/ (charged) to other comprehensive income	Credited/ (charged) to income statement	31 December 2016
Tax effect of deductible and taxable temporary differences				
Allowances for loan impairment and credit related commitments	(113,929)	–	72,954	(40,975)
Securities available-for-sale	473	(7,092)	–	(6,619)
Property and equipment and investment property	9,633	(1,618)	(1,037)	6,978
Other	4,294	–	–	4,294
Estimated net deferred tax liability	**(99,529)**	**(8,710)**	**71,917**	**(36,322)**
Tax losses carry forward	376,521	–	(152,480)	224,041
Net deferred tax asset	**276,992**	**(8,710)**	**(80,563)**	**187,719**

28. Risk management

Introduction

Risk is inherent to banking and it is managed through the process of ongoing identification, measurement and control, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

28. Risk management (continued)

Introduction (continued)

Risk Management Process

The risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairman of the Management Board on Risks and reporting to Supervisory Board of the Bank, the Management Board of the Bank, the Credit Council of the Bank and the Assets and Liabilities Management Committee of the Bank as well as the Committee on Operational Risk Management of the Bank.

Supervisory Board of the Bank

The Supervisory Board of the Bank has the highest degree of authority with respect to the risk management of the Bank, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of UAH 3,000 million.

Management Board

The Management Board of the Bank is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board of the Bank delegates its powers with respect to the overall asset and liability management to the Assets and Liabilities Management Committee of the Bank, authorities on operational risk management – to the Committee On Operational Risk Management of the Bank and approves the composition of these Committees. In addition, the Management Board of the Bank is responsible for development and preliminary approval of the Bank's credit policy. Final approval of credit policy is within the competence of the Supervisory Board. The Management Board accepts Credit Council decisions on projects of lending to the Bank's related individuals with limit credit risk more than 3% of regulatory capital, calculated on the next date before the decision.

Credit Council of the Bank

The Credit Council of the Bank approves loans issued with the maximum credit exposure of UAH 3,000 million and sets limits on interbank deals. A representative of the shareholders is a member of the Credit Council of the Bank. The decisions taken by the Credit Council of the Bank in terms of projects which maximum credit exposures exceeding UAH 200 million shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board of the Bank. The decisions made by the Credit Council in terms of projects which maximum credit exposures below UAH 200 million shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board or of an external expert (a representative of the shareholder). The Council meets twice a week.

Credit Committee of the Bank

The Credit Committee is responsible for the decisions on restructuring and issue of loans with a maximum credit exposure of UAH 30 million. Also, the Credit Committee of the Bank approves issuance of loans which bear no credit risk covered by cash collateral. Meetings of the Committee are held several times in a week, as required.

Assets and Liabilities Management Committee of the Bank

The Assets and Liabilities Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for monitoring of the interest rate, currency and liquidity risks of the Bank.

Operational Risk Management Committee of the Bank

Operational Risk Management Committee of the Bank is responsible for operational risk management with the aim to decrease operational losses, banking processes, systems and technologies improvement, approval and implementation of measures aimed at assurance of going concern of the Bank.

For the purpose of operative management and reactions identified operational risks and managing factors of operational risks, the Bank has established five subcommittees based on the Operational Risk Management Committee.

Subcommittee "Personnel"

Subcommittee "Personnel" analyses matters on intentional and unintentional actions of personnel, errors made by personnel, qualification and personnel sufficiency assessment etc.

28. Risk management (continued)

Introduction (continued)

Subcommittee "Processes"

Subcommittee "Processes" analyses matters of processes organization, quality of communications, existing processes effectiveness and of the required optimization.

Subcommittee "External factors"

Subcommittee "External factors" analyses incidents of intentional actions of third parties, liquidation of repercussions of force majeure and intentional damage of the Bank's reputation.

Subcommittee "Systems"

Subcommittee "Systems" analyses IT systems quality issues, common understanding of IT risks and development of balanced decisions as to IT risks with consideration the specifics and interests of the business units of the Bank.

Subcommittee "Informational security"

Subcommittee "Informational security" considers matters of development of IT security management system, development of IT risks management culture, IT incidents management.

Risk Management Division of the Bank

The Risk Management Division is responsible for the development of credit risk management methodologies, procedures and reporting allowing the Bank to perform quantitative assessment of credit, interest, currency, operational and liquidity risks. This business unit is responsible for implementation of procedures related to risk management. The Risk Management Division of the Bank performs current control of the above risks on a permanent basis and controls the execution of the decisions made by the Credit bodies of the Bank, the Assets and Liabilities Management Committee of the Bank, the Operational Risk Management Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical and expert models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs worst case scenarios that would arise should extreme events, which are unlikely to occur, do, in fact, occur.

Risk monitoring and control are primarily performed based on the limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. The information compiled from all the businesses is examined and processed in order to analyse, control and early identify the risks. This information is presented and explained to the Management Board of the Bank, Assets and Liabilities Management Committee of the bank, Operational Risk Management Committee of the Bank, Credit Council of the Bank and the head of each respective business division. The report includes the information on the aggregate credit exposure, credit metric forecasts, limit exceptions, liquidity and interest rate risks and risk profile changes, information on operational risk. On a monthly basis, the detailed reporting on liquidity, currency, interest and operational rate risks, industry, customer and geographic risks is prepared. The management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

Risk mitigation

As a part of its overall financial risk management process, for the purpose of interest, currency, credit and liquidity risks management the Bank uses a system of limits and restrictions that ensures that actual risk measures are at the levels that do not exceed the Bank's tolerance to those risks.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

To mitigate market risks the Bank may use derivatives to a limited extent.

28. Risk management (continued)

Credit risk

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers. Such risks are monitored on a continuous basis and are subject to a regular review. Limits on the level of credit risk per borrower are approved regularly by the Credit Council of the Bank and the Credit Committee of the Bank.

The exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes guarantees and letters of credit available to its customers which may require that the Bank make payments on their behalf. They expose the Bank to similar risks as loans and these 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 or collateral agreements, is shown in their carrying values as accurately as possible.

If recorded at fair value, their carrying values represent the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality of financial assets

The credit quality of financial assets is managed by using both external and the Bank's internal credit ratings. The credit quality by class of asset for loan-related statement of financial position lines, based on the external ratings and the Bank's credit rating system is presented in Note 8, Note 9 and Note 10.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses the impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. The items considered when determining the allowance amounts include the feasibility of the counterparty's business plan, its ability to improve the performance once a financial difficulty has arisen, projected receipts and the expected dividend payment in case of bankruptcy, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless any unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is no yet objective evidence of impairment. The allowances are evaluated at each reporting date, with each segment of loan portfolio receiving a separate review. The collective assessment takes account of the impairment that is likely to be present in the portfolio even though there is no yet any objective evidence of impairment in an individual assessment. The impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time the 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. The impairment allowance is then reviewed by the credit management to ensure its alignment with the Bank's overall policy.

(in thousands of Ukrainian hryvnias)

28. Risk management (continued)

Credit risk (continued)

Financial guarantees and letters of credit are assessed based on the methods applied for loans; when the loss is considered probable, provisions are recorded against other credit related commitments.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors future cash flows and liquidity on a daily basis.

The Bank, with the view to ensuring proper discharge of both its own and clients' obligations, has implemented the policy aimed at maintaining the liquid assets at the level sufficient to cover any unplanned withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation, specifically, through formation of so called "liquidity cushion". The liquidity risk is measured by the Bank by using the gap analysis and forecasts of the expected future cash flows during a 1-year term. In addition, the stress tests scenarios are applied to the forecasted future cash flows developed based on the statistical data of the Ukrainian banks' results under the conditions of the financial crisis.

In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

Ratio	2017, %	2016, %
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	43.15	36.17
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	77.41	68.41
N6 "Short-term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 60%)	95.75	101.55

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations except for gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

At 31 December 2017	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to other banks	865,182	–	–	–	–	**865,182**
Customer accounts	25,785,004	3,632,800	4,733,775	3,316,709	48,853	**37,517,141**
Deposit certificates issued	18,605	85,447	48,481	36,678	–	**189,211**
Eurobonds issued	–	532,508	519,315	999,052	–	**2,050,875**
Other borrowed funds	–	109	–	11,213	–	**11,322**
Gross settled derivative financial instruments:						
- amounts payable	766,910	–	–	–	–	**766,910**
- amounts receivable	(756,555)	–	–	–	–	**(756,555)**
Other financial liabilities	627,222	–	–	–	–	**627,222**
Subordinated debt	9,231	8,784	13,549	27,395	627,463	**686,422**
Total undiscounted financial liabilities	**27,315,599**	**4,259,648**	**5,315,120**	**4,391,047**	**676,316**	**41,957,730**

(in thousands of Ukrainian hryvnias)

28. Risk management (continued)

Liquidity risk and funding management (continued)

At 31 December 2016	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to other banks	1,132,568	5,346	10,629	–	–	**1,148,543**
Customer accounts	22,723,260	3,923,024	4,087,320	2,333,658	528,598	**33,595,860**
Deposit certificates issued	5,551	225,437	464,479	–	–	**695,467**
Eurobonds issued	–	655,363	640,590	1,236,863	2,296,456	**4,829,272**
Other borrowed funds	132	52	80	162	19,109	**19,535**
Gross settled derivative financial instruments:						
- amounts payable	2,507,092	–	–	–	–	**2,507,092**
- amounts receivable	(2,454,022)	–	–	–	–	**(2,454,022)**
Other financial liabilities	392,958	–	–	–	–	**392,958**
Subordinated debt	9,223	8,784	13,549	27,395	681,807	**740,758**
Total undiscounted financial liabilities	**24,316,762**	**4,818,006**	**5,216,647**	**3,598,078**	**3,525,970**	**41,475,463**

The table below shows the contractual expiry of the Bank's financial commitments and contingencies.

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
2017	378,158	769,642	464,957	207,959	111,789	**1,932,505**
2016	329,594	1,374,667	460,430	463,371	161,105	**2,789,167**

Financial commitments and contingences include guarantees, letters of credit and credit limits on overdrafts, with the expected draw-down at any time starting from the reporting date till the date of contractual expiry. The Bank expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

The table below shows the analysis of carrying amounts of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2017:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	1,499,210	–	–	–	–	**1,499,210**
Balance with the National Bank of Ukraine	1,178,795	–	–	–	–	**1,178,795**
Due from other banks	4,962,419	30,891	485,565	62,861	5,580	**5,547,316**
Securities at fair value through profit or loss	3,867	–	771	–	158,249	**162,887**
Securities available-for-sale	2,515,938	175,502	655,425	3,307,455	3,579,169	**10,233,489**
Loans to customers	3,733,726	6,217,346	2,357,275	8,179,793	5,007,459	**25,495,599**
Other financial assets	261,826	–	–	–	–	**261,826**
Total financial assets	**14,155,781**	**6,423,739**	**3,499,036**	**11,550,109**	**8,750,457**	**44,379,122**
Liabilities						
Due to other banks	865,004	–	–	–	–	**865,004**
Customer accounts	25,734,713	3,558,019	4,620,868	3,234,952	45,724	**37,194,276**
Deposit certificates issued	18,559	84,918	48,005	35,712	–	**187,194**
Eurobonds issued	–	479,737	479,737	955,540	–	**1,915,014**
Other borrowed funds	62	–	–	11,131	–	**11,193**
Other financial liabilities	637,577	–	–	–	–	**637,577**
Subordinated debt	4,615	–	–	–	485,041	**489,656**
Total financial liabilities	**27,260,530**	**4,122,674**	**5,148,610**	**4,237,335**	**530,765**	**41,299,914**
Liquidity gap arising from financial instruments	**(13,104,749)**	**2,301,065**	**(1,649,574)**	**7,312,774**	**8,219,692**	**3,079,208**

(in thousands of Ukrainian hryvnias)

28. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the analysis of carrying values of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2016:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	1,162,368	–	–	–	–	**1,162,368**
Balance with the National Bank of Ukraine	1,213,522	–	–	–	–	**1,213,522**
Due from other banks	4,048,580	964,500	523,524	25,232	128	**5,561,964**
Securities at fair value through profit or loss	13,837	–	1,197	–	262,839	**277,873**
Securities available-for-sale	2,699,446	100,720	141,825	552,165	5,638,499	**9,132,655**
Loans to customers	1,795,203	3,573,292	9,379,941	5,421,270	4,586,049	**24,755,755**
Other financial assets	251,508	–	–	–	–	**251,508**
Total financial assets	**11,184,464**	**4,638,512**	**10,046,487**	**5,998,667**	**10,487,515**	**42,355,645**
Liabilities						
Due to other banks	1,132,569	5,266	10,054	–	–	**1,147,889**
Customer accounts	22,662,450	3,827,015	3,970,431	2,228,408	497,212	**33,185,516**
Deposit certificates issued	5,539	224,399	461,433	–	–	**691,371**
Eurobonds issued	–	537,183	537,183	1,074,365	2,141,809	**4,290,540**
Other borrowed funds	105	–	–	–	18,890	**18,995**
Other financial liabilities	446,028	–	–	–	–	**446,028**
Subordinated debt	4,607	–	–	–	486,143	**490,750**
Total financial liabilities	**24,251,298**	**4,593,863**	**4,979,101**	**3,302,773**	**3,144,054**	**40,271,089**
Liquidity gap arising from financial instruments	**(13,066,834)**	**44,649**	**5,067,386**	**2,695,894**	**7,343,461**	**2,084,556**

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within the period exceeding the one indicated in the table above. These balances are included in the table above as the amounts with the maturity dates in the period of up to 1 month.

The Bank's ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. The current volume of liquid assets will enable the Bank to operate in a stable manner even under a situation when there may be a partial withdrawal of clients' deposits from the Bank and in case of further deterioration of the economic situation.

The management of the Bank believes that in spite of a substantial portion of the customers demand accounts, the diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Included in "Customer accounts" are term deposits of individuals. Pursuant to the Ukrainian legislation, the Bank is obliged to repay such deposits upon the depositor's demand (Note 14). Management of the bank believes that majority of term deposits of individuals will not be withdrawn till the date of maturity, thus customer accounts are disclosed by contractual maturity.

Market risk

Market risk – non-trading

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, exchange rates and other prices. The Bank manages its exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using the sensitivity analysis.

Interest rate risk

Interest rate risk is a potential menace of losses incurrence, decrease in income or decrease in cost of capital of the Bank as a result of unfavourable changes in interest rates in the market. The risk appears primarily as a result of differences in maturities of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, the interest rate risk is the result of the unbalanced structure of statement of financial position by assets and liabilities by residual term to re-pricing date that are sensitive to changes in interest rates.

(in thousands of Ukrainian hryvnias)

28. Risk management (continued)

Market risk (continued)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating interest rate of non-trading financial assets and financial liabilities held at 31 December, taking into account the re-pricing periods according to the contractual terms on the respective assets and liabilities.

To assess its interest risk the Bank uses gap analysis of interest-bearing assets and liabilities, performs analysis of sensitivity of interest-bearing assets and liabilities to changes in interest rates.

Interest risk control is performed in accordance with the report of spread and margin changes.

The Bank assesses interest rate risk by scenario of parallel shift of yield curve towards the increase in interest rates by 200 bpp in major currencies (UAH, USD, EUR). As at 31 December 2017, the Bank was exposed to interest rate risk, whose realisation may impact net interest income within 1-year horizon – a possible decrease by UAH 25,416 thousand (31 December 2016: decreased by UAH 253,110 thousand).

The Bank assesses the above level of the interest rate risk as acceptable and controllable, which is not to affect significantly the Bank's yield and stable financial position. Interest rates are set by the Tariff Commercial Committee of the Bank taking into consideration transfer interest rates and cost of risks set by the Bank's Assets and Liabilities Management Committee. In accordance with the internal policies of the Bank, the delegation of authority regarding the change of interest rates is established. The control over transaction effectiveness with interest-bearing instruments is performed by the Tariff Commercial Committee of the Bank on a monthly basis.

Currency risk

Currency risk is the risk connected with the impact of foreign exchange rates fluctuation on the value of financial instruments .

The Bank performs currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II market risk framework, December 2010. VaR allows to assess maximum possible extent of losses with set confidence level for a certain period of time.

The Bank performs VaR calculation using historical modelling method so as to assess the currency risk in normal and stressed conditions of financial market development. VaR calculation is based on 251 days disregarding historical data on market currency rates; the calculation period during which the Bank would be probably able to close open foreign currency positions is 10 days and one-sided confidence level is 99%.

When determining the currency risk, the estimated VaR is multiplied by the sum of number "3" and mark-up in the amount "1" in accordance with Basel recommendations.

Disregarding the fact that VaR allows to accept a currency risk assessment, it is necessary to consider the following weaknesses of the method:

- The use of past currency and banking metals exchange rates does not allow to fully estimate possible currency and banking metals rates fluctuations in the future;
- The use of 10-days calculation period stipulates that all open positions in foreign currencies and banking metals may be closed within 10 trading days. This estimation may inaccurately reflect the currency risk value in the periods of diminishing market liquidity whereby the period of positions closure by the Bank may increase;
- The use of 99% one-sided confidence level does not allow to estimate the volume of losses expected with 1% probability;
- VaR calculation is performed based on open positions of the Bank in foreign currencies and banking metals as at The end of the day and may not reflect the risk accepted by the Bank during the day.

The results of currency risk calculation using VaR method as at 31 December are as follows:

Index	2017	2016
Currency risk without diversification consideration:		
- USD	79,009	1,973
- EUR	5,538	27,516
- RUB	45,715	45,475
- other currencies	4,076	6,932
Total currency risk without diversification	**134,338**	**81,896**
Diversification effect	(15,322)	(16,104)
Currency risk with diversification consideration	**119,016**	**65,792**

28. Risk management (continued)

Currency risk (continued)

The above data is calculated based on internal management accounts of the Bank based on the operational financial statements prepared in accordance with IFRS.

Assets and Liabilities Committee of the Bank examines the results of currency risk assessment on a monthly basis.

Operational risk

The Bank calculates the value of accepted operational risk – "risk appetite" – on an annual basis.

Risk appetite value is approved by the Operational Risk Management Division and is taken into account during the budget process. It should be noted that the calculation of risk appetite does not include past events that had one-off force-majeure nature and/or that are not expected to arise in the future due to elimination of their causes.

The calculation of actual losses caused by operational risks and monitoring of the Bank's compliance with the set "risk appetite" is performed on a quarterly basis. In the event of significant operational risk events, an immediate notification to the Board and Supervisory Board is provided for, as well as a detailed investigation of the causes is made and measures to exclude the incident recurrence in the future are taken.

The system of operational risk management has been functioning since 2011 and includes, in particular:

- The Bank-wide consolidation of operational risk events;
- Annual self-assessment of operational risk;
- Annual stress testing of operational risk in accordance with the requirements of the National Bank of Ukraine;
- Quarterly monitoring of key risk indicators (KRIs).

To obtain a uniform assessment of the level of operational risk, a comparative analysis of the results of different approaches is carried out (the resulting risk level is assessed according to the scale: low, medium, high).

Registered operational risk events are subject to a detailed review and assessment of adverse consequences, and the events requiring additional management decisions or development of additional mitigation measures are considered by ORMC Subcommittee or the Operational Risk Management Committee.

The operational risk management system is effective and integrated into the Bank's overall risk management system.

To ensure continuous operations, the Bank carries out a hands-on testing of the Business Continuity Plan on an annual basis.

(in thousands of Ukrainian hryvnias)

29. Fair value measurements

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

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

	2017			2016		
	Carrying value	**Fair value**	**Unrecognised gains/ (losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains/ (losses)**
Financial assets						
Cash on hand	1,499,210	1,499,210	−	1,162,368	1,162,368	−
Balance with the National Bank of Ukraine	1,178,795	1,178,795	−	1,213,522	1,213,522	−
Due from other banks						
- Current accounts and overnight deposits	4,124,389	4,124,389	−	3,713,137	3,713,137	−
- Term deposits with other banks	1,422,927	1,422,927	−	1,848,827	1,848,827	−
Loans to customers						
- Corporate loans	19,823,312	19,731,017	(92,295)	21,323,624	21,367,161	43,537
- Consumer loans	4,051,988	4,051,988	−	2,179,928	2,179,928	−
- Mortgage loans	179,267	163,817	(15,450)	303,155	280,715	(22,440)
- Car loans	4,657	1,951	(2,706)	26,026	18,921	(7,105)
- Other loans to individuals	1,436,375	1,436,375	−	923,022	923,022	−
Financial liabilities						
Due to other banks						
Current accounts of other banks	392,353	392,353	−	862,148	862,148	−
Term deposits of other banks	292,410	292,410	−	225,380	225,380	−
- Loans from other banks	180,241	180,241	−	60,361	60,361	−
Customer accounts						
- legal entities	21,687,846	21,699,886	(12,040)	18,472,333	18,484,759	(12,426)
- individuals	15,506,430	15,554,848	(48,418)	14,713,183	14,778,171	(64,988)
Deposit certificates issued	187,194	187,194	−	691,371	691,371	−
Eurobonds issued	1,915,014	2,018,215	(103,201)	4,290,540	4,415,166	(124,626)
Other borrowed funds	11,193	11,193	−	18,995	18,995	−
Subordinated debt	489,656	436,653	53,003	490,750	420,633	70,117
Total unrecognised change in unrealised fair value			**(221,107)**			**(117,931)**

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For the financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Financial assets and financial liabilities carried at amortised cost

For quoted debt issued the fair values are calculated based on quoted market prices at reporting date. For those instruments where quoted market prices are not available, and for those ones for which fair value differs from carrying amount, namely loans to customers, due from other banks, balances with the National Bank of Ukraine, due to other banks, customer accounts, deposit certificates, other financial assets and liabilities, a discounted cash flow model is used based on a current market rates offered for similar financial instruments with similar provisions, similar credit risk and maturity.

Financial instruments recorded at fair value or fair value of which is disclosed

All the assets and liabilities whose fair value is measured or disclosed in the financial statements are classified by fair value sources hierarchy level presented below on the lowest level input that is significant to the fair value measurement as a whole:

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

(in thousands of Ukrainian hryvnias)

29. Fair value measurements (continued)

Financial instruments recorded at fair value or fair value of which is disclosed (continued)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

31 December 2017	**Date of valuation**	**Fair value measurement using** Level 1	Level 2	Level 3	**Total**
Assets measured at fair value					
Ukrainian Government debt securities	31 December 2017	–	8,387,265	–	**8,387,265**
Forward contracts	31 December 2017	–	3,336	–	**3,336**
NBU deposit certificates	31 December 2017	–	2,002,054	–	**2,002,054**
Property and equipment – premises	31 December 2017	–	–	834,916	**834,916**
Works of art	1 December 2016	–	–	17,005	**17,005**
Investment property	31 December 2017	–	–	149,347	**149,347**
Assets for which fair values are disclosed					
Cash on hand and in transit	31 December 2017	1,499,210	–	–	**1,499,210**
Balance with the National Bank of Ukraine	31 December 2017	–	1,178,795	–	**1,178,795**
Due from other banks	31 December 2017	–	5,547,316	–	**5,547,316**
Loans to customers	31 December 2017	–	–	25,385,148	**25,385,148**
Shares	31 December 2017	–	–	7,057	**7,057**
Liabilities measured at fair value					
Forward contracts	31 December 2017	–	10,355	–	**10,355**
Liabilities for which fair values are disclosed					
Due to other banks	31 December 2017	–	865,004	–	**865,004**
Customer accounts	31 December 2017	–	–	37,254,734	**37,254,734**
Deposit certificates issued	31 December 2017	–	–	187,194	**187,194**
Eurobonds issued	31 December 2017	2,018,215	–	–	**2,018,215**
Other borrowed funds	31 December 2017	–	11,193	–	**11,193**
Subordinated debt	31 December 2017	–	436,653	–	**436,653**

Information about changes of value of premises, work of art and investment property during 2017 has been disclosed in Note 11.

31 December 2016	**Date of valuation**	**Fair value measurement using** Level 1	Level 2	Level 3	**Total**
Assets measured at fair value					
Ukrainian Government debt securities	31 December 2016	–	6,800,986	–	**6,800,986**
Forward currency contracts	31 December 2016	–	27,020	–	**27,020**
NBU deposit certificates	31 December 2016	–	2,602,485	–	**2,602,485**
Property and equipment – premises	1 December 2016	–	–	914,425	**914,425**
Works of art	1 December 2016	–	–	17,005	**17,005**
Investment property	1 December 2016	–	–	185,857	**185,857**
Assets for which fair values are disclosed					
Cash on hand and in transit	31 December 2016	1,162,368	–	–	**1,162,368**
Balance with the National Bank of Ukraine	31 December 2016	–	1,213,522	–	**1,213,522**
Due from other banks	31 December 2016	–	5,561,964	–	**5,561,964**
Loans to customers	31 December 2016	–	–	24,769,747	**24,769,747**
Shares	31 December 2016	–	–	7,057	**7,057**
Liabilities measured at fair value					
Forward currency contracts	31 December 2016	–	53,070	–	**53,070**
Liabilities for which fair values are disclosed					
Due to other banks	31 December 2016	–	1,147,889	–	**1,147,889**
Customer accounts	31 December 2016	–	–	33,262,930	**33,262,930**
Deposit certificates issued	31 December 2016	–	–	691,371	**691,371**
Eurobonds issued	31 December 2016	4,415,166	–	–	**4,415,166**
Other borrowed funds	31 December 2016	–	18,995	–	**18,995**
Subordinated debt	31 December 2016	–	420,633	–	**420,633**

29. Fair value measurements (continued)

Financial instruments recorded at fair value or fair value of which is disclosed (continued)

The following is the description of the determination of fair value for the financial instruments which are recorded at fair value using the valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

The derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using the present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Securities

The securities valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using discounted cash flows models which sometimes only incorporate the data observable in the market, such as interest rates, and at other times use both observable and non-observable data. The non-observable inputs to the models include the assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.

Premises, works of art and investment property

The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach.

During 2017 and 2016, the Bank did not transfer any financial assets or financial liabilities between fair value hierarchy levels.

During 2017 and 2016, the Bank recognised neither changes in the carrying values of the Level 3 financial assets at fair value nor resulting profit or loss.

30. Contingencies and commitments

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. The legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. The management of the Bank believes that its interpretation of the relevant legislation is appropriate, and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time, there is a risk that the transactions and interpretations not challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time.

Capital expenditure commitments

As at 31 December 2017, the Bank had capital expenditure commitments in respect of purchase of equipment of UAH 23,899 thousand (31 December 2016: UAH 10,135 thousand). The Bank's management has already allocated the necessary resources in respect of these commitments. The Bank's management believes that the future income and funding will be sufficient to cover these commitments and any similar commitments.

Compliance with covenants

The Bank is subject to certain covenants related primarily to Eurobonds issued. The non-compliance with such covenants may result in negative consequences for the Bank including the growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain a certain level of equity, capital adequacy ratio, total exposure to related parties of the bank to total assets ratio. The failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. The Bank was in compliance with all covenants as at 31 December 2017 and 2016.

(in thousands of Ukrainian hryvnias)

30. Contingencies and commitments (continued)

Credit related commitments

The guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the risk of the clients' defaults or inability to perform the contracts with third parties. The Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of the customers authorising third parties to draw drafts on the Bank up to a stipulated amount under the specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to the credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to the deterioration of the customer's solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash needs, as these financial instruments may expire or terminate without being funded.

The letters of credit issued by the Bank are as follows:

	2017	**2016**
Confirmed export letters of credit	51,205	1,111,086
Non-confirmed import letters of credit	78,397	123,034
Cash collateral (Note 14)	(118,038)	(1,195,531)
Provision for import letters of credit	(83)	(248)
Total letters of credit	**11,481**	**38,341**

The guarantees issued are as follows:

	2017	**2016**
Guarantees and promissory note endorsements	1,802,903	1,555,047
Cash collateral (Note 14)	(461,202)	(386,592)
Provision for guarantees and avals	(7,562)	(11,268)
Guarantees and promissory note endorsements	**1,334,139**	**1,157,187**

The amount of undrawn revocable commitments to extend credit issued by the Bank as at 31 December 2017 was UAH 7,230,289 thousand (31 December 2016: UAH 4,892,266 thousand). The management considers the commitments to extend credit as revocable due to the fact that the Bank can stop further financing of the client or early cancel the credit limit funds based on the agreements providing for a wide range of the trigger events for early cancellation of credit limits, such as worsening of the client's financial condition, decrease in volume of cash inflows to the clients' current accounts, loss of collateral or substantial decrease in its fair value, decisions of the regulatory bodies impacting the Ukrainian money market.

The movements in the provision for the letters of credit and guarantees were as follows:

	2017	**2016**
Provision for commitments, guarantees and letters of credit at the beginning of the period	**13,599**	**14,969**
Charge to provision for commitments, guarantees and letters of credit during the reporting period	(3,475)	(2,513)
Translation differences	508	1,143
Provision for letters of credit and guarantees at the end of the period (Note 18)	**10,632**	**13,599**

As at 31 December 2017, provision for letters of credit and guarantees included provision for other losses in amount of UAH 2,987 thousand (31 December 2016: UAH 2,083 thousand).

(in thousands of Ukrainian hryvnias)

30. Contingencies and commitments (continued)

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under cancellable operating leases of premises were as follows:

	2017	2016
Within 1 year	16,257	14,518
From 1 to 5 years	171,549	102,583
Later than 5 years	55,642	−
Total operating lease commitments	**243,448**	**117,101**

31. Related party transactions

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures.* In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2017 and as at 31 December 2016 and income and expenses for 2017 and 2016 were as follows:

As at and for the year ended 31 December 2017	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers	−	2,992,383	146	1
(interest rate, % p.a.)	−	(9.93)	(38.88)	(37)
Allowance for loan impairment	−	(60,221)	(1)	−
Other assets	12	2,782	62	−
Liabilities				
Customer accounts	(91)	(7,135,974)	(64,692)	(127,878)
(interest rate, % p.a.)	−	*(9.35)*	*(5.9)*	*(6.68)*
Deposit certificates issued	−	−	(38,546)	−
Other liabilities	−	(12,345)	(8)	(15)
Credit related commitments				
Revocable commitments to extend credit	−	208,105	181	430
Guarantees and avals	−	226,629	−	−
Letters of credit	−	81,246	−	−
Income/(expense)				
Interest income	−	361,344	17	4
Interest expense	−	(353,796)	(3,618)	(6,459)
Fee and commission income	120	360,604	149	406
Other income	−	230	60	15
Charge to provision for commitments, guarantees and letters of credit	−	8	−	−
Allowance for loan impairment	−	(42,854)	−	−
Operating expenses	−	(470)	(874)	−

(in thousands of Ukrainian hryvnias)

31. Related party transactions (continued)

As at and for the year ended 31 December 2016	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers	–	1,698,595	169	2
(interest rate, % p.a.)	–	*(13.98)*	*(31.49)*	*(37.0)*
Allowance for loan impairment	–	(15,577)	(1)	–
Other assets	7	9,611	–	–
Liabilities	–	–	–	–
Customer accounts	(88)	(7,243,412)	(34,207)	(112,227)
(interest rate, % p.a.)	–	*(8.96)*	*(7.72)*	*(7.65)*
Deposit certificates issued	–	(435,041)	–	–
Other liabilities	–	(1,273)	(4)	(10)
Credit related commitments				
Revocable commitments to extend credit	–	193,715	184	416
Guarantees and avals	–	114,422	–	–
Letters of credit	–	169,052	–	–
Income/(expense)				
Interest income	–	251,462	26	8
Interest expense	–	(322,995)	(2,550)	(7,433)
Fee and commission income	83	259,803	65	699
Fee and commission expense	–	(867)	(2)	(8)
Other income	–	39	9	12
Charge to provision for commitments, guarantees and letters of credit	–	2	–	–
Allowance for loan impairment	–	1,611	(1)	–
Operating expenses	–	(2)	(820)	–

The allowance for loan impairment in respect of loans to related parties has been assessed on both individual and collective basis.

Aggregate amounts lent to and repaid by related parties during 2017 were as follows:

	Parent company	Entities under common control	Management	Other related parties
Amounts lent to related parties during the year	–	1,465,405	63	–
Amounts repaid by related parties during the year	–	(301,036)	(86)	(1)
Other changes	–	129,419	–	–

Aggregate amounts lent to and repaid by related parties during 2016 were as follows:

	Parent company	Entities under common control	Management	Other related parties
Amounts lent to related parties during the year	–	683,178	33	1
Amounts repaid by related parties during the year	–	(735,772)	(49)	–
Other changes	–	233,139	1	–

In 2017, the remuneration of members of the Management Board comprised salaries of UAH 66,658 thousand (2016: UAH 71,744 thousand), compulsory contributions to the State funds of UAH 1,200 thousand (2016: UAH 1,083 thousand). In 2017, the remuneration to members of the Supervisory Board comprised UAH 1,620 thousand (2016: UAH 810 thousand).

(in thousands of Ukrainian hryvnias)

32. Earnings per share

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period without regard to shares repurchased. The Bank does not have converted preferred shares, thus diluted earnings per share is equal to basic earnings per share.

	2017	2016
Income for the reporting period	785,827	367,011
Weighted average number of ordinary shares outstanding during the period	14,323,880	14,323,880
Income per share, basic (in hryvnias per share)	**54.86**	**25.62**

33. Changes in liabilities related to financial activity

Changes in cash flows from financing activities in the statement of cash flows for the year ended 31 December 2017 were as follows:

	Eurobonds issued	Other borrowed funds	Subordinated debt
Carrying amount at 31 December 2016	**4,290,540**	**18,995**	**490,750**
Repayment	(2,394,876)	(9,888)	–
Translation differences	18,589	2,139	–
Other	761	(53)	(1,094)
Carrying amount at 31 December 2017	**1,915,014**	**11,193**	**489,656**

The "Other" line includes the effect of accrued but not paid interest on eurobonds issued, other borrowed funds and subordinated debt. The Bank classifies interest paid as cash flows from operating activities.

34. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank. The Bank considers the total capital under management to be the total regulatory capital. The amount of the capital that the Bank manages is UAH 3,526,143 thousand as at 31 December 2017 (31 December 2016: UAH 4,088,984 thousand).

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amounts of dividend payments to the shareholders, return the capital to the shareholders or issue capital securities. No changes were made in the objectives, policies and processes since the previous years.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on the Ukrainian accounting rules. As at 31 December 2017 and 2016, the Bank's capital adequacy ratio on this basis was as follows:

	2017	2016
Main capital	2,798,998	2,852,869
Additional capital	727,145	1,236,115
Withdrawals	(6,756)	(5,735)
Total equity	**3,519,387**	**4,083,249**
Risk-weighted assets	**29,916,078**	**31,861,941**
Capital adequacy ratio	**11.76%**	**12.82%**

(in thousands of Ukrainian hryvnias)

34. Capital (continued)

The regulatory capital consists of the main capital, which comprises paid-in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets and losses of current and prior years decreased by the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest. In addition, the main capital is decreased for the amount by which uncovered credit risk exceeds the prior year income. The other component of the regulatory capital is additional capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased by the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest, long-term subordinated debt, retained earnings of prior years decreased for the amount of the uncovered credit risk.

As at 31 December 2017 and 2016, the Bank was compliant with the regulatory requirements to capital.

As at 31 December 2017 and 2016, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2017	**2016**
Tier 1 capital		
Share capital	3,294,492	3,294,492
Share premium	101,660	101,660
Reserve fund	1,475,430	1,475,430
Retained earnings	(551,731)	(1,363,308)
Total tier 1 capital	**4,319,851**	**3,508,274**
Tier 2 capital		
Asset revaluation reserves	553,409	540,021
Eligible subordinated debt	391,725	490,750
Total tier 2 capital	**945,134**	**1,030,771**
Total equity	**5,264,985**	**4,539,045**
Capital adequacy ratio at 31 December		
Risk-weighted assets	33,788,937	32,358,026
Total equity	5,264,985	4,539,045
Capital adequacy ratio (%)	**15.58%**	**14.03%**

35. Events after the reporting date

From the beginning of the year the National Bank of Ukraine raised the discount rate up to 16% starting from 26 January 2018 and up to 17% starting from 2 March 2018.

Signed on behalf of the Management Board on 29 March 2018

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)