Joint Stock Company
"The State Export-Import Bank of Ukraine"

Annual consolidated financial statements

for the year ended 31 December 2017
and independent auditor's report

Translation from Ukrainian original

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Independent auditor's report

To the Shareholder of Joint Stock Company "The State Export-Import Bank of Ukraine"

Opinion

We have audited the consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (together referred to as "the Bank"), which comprise the consolidated statement of financial position (consolidated balance sheet) as at 31 December 2017, the consolidated statement of profit and loss (consolidated income statement), the consolidated statement of comprehensive income, the consolidated statement of changes in equity (consolidated statement of equity) and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2017 and its consolidated financial performance and its consolidated 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 consolidated 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 consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Valuation of allowance for impairment of loans to customers	
The appropriateness of allowance for impairment on loans to customers is a key area of judgment for the Bank's management. The identification of impairment and the determination of the recoverable amount is an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and fair value of collateral. The use of different modelling techniques and assumptions could produce significantly different estimates of allowance for impairment on loans to customers. Taking into account the significance of the loans to customers balances (40% of total assets) and high level of subjectivity of assumptions, we considered valuation of allowance for impairment on loans to customers to be a key audit matter. The Bank's management approaches to assessing and managing credit risk are described in Note 9 and Note 25 to the consolidated financial statements.	Our audit procedures included the assessment of the methodology used by the Bank to identify impairment indications and calculation of allowance for impairment, testing of input data and analysis of assumptions. For the allowance for impairment calculated on an individual basis, we tested the assumptions underlying the impairment identification and quantification including assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral. For the allowance for impairment calculated on a collective basis, we tested the underlying models including the inputs to those models and their mathematical accuracy. We assessed the Bank's information about the allowance for impairment on loans to customers disclosed in the consolidated financial statements.
Valuation of state bonds designated at fair value through profit or loss	
Valuation of state bonds designated at fair value through profit or loss was a key area of judgments for management due to complexity of estimations and subjective valuation techniques. Taking into account the significance of the carrying amount of state bonds designated at fair value through profit or loss to the consolidated financial statements and related estimation uncertainty, we considered valuation of the above assets to be a key audit matter. Notes 10 and 26 to the consolidated financial statements provide information on the state bonds designated at fair value through profit or loss.	Our audit procedures in respect of the valuation of state bonds designated at fair value through profit or loss included inquiries of the Bank's management about the significant assumptions applied, assessment and testing of inputs used, assessing mathematical accuracy of the calculation and comparing the results in the models to the amounts recognised in the consolidated statement of financial position as at 31 December 2017. We involved our valuation specialists to evaluate the methodology and assumptions used. We assessed the Bank's disclosures in relation to the state bonds designated at fair value through profit or loss.

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Valuation of deferred tax assets

The Bank has significant recognised and unrecognised deferred tax asset balances as at 31 December 2017. Recognition of deferred tax asset is dependent on the availability of future taxable profits. There is an inherent uncertainty involved in forecasting future taxable profits. The analysis of the recognition and recoverability of deferred tax asset was one of the matters of most significance in our audit because the amounts are material, the assessment process is judgmental, and is based on assumptions that are affected by expected future market and economic conditions.

Notes 4 and 14 to the consolidated financial statements provide information on the judgements and amounts of deferred tax asset.

Our audit procedures included evaluation of the Bank's deferred tax asset assumptions in relation to the availability of sufficient future taxable profits based on the business plan and the forecast, discussions of underlying judgements with the Bank's management, testing tax positions and timing of future deductions. In addition, we assessed the historical accuracy of management's estimates by comparing budgeted and actual data. We also compared the assumptions used in the business plan and the forecast with available banking market information and the overall Ukrainian economy projections.

We also analysed and tested the deferred tax asset disclosures prepared by the Bank and presented in the consolidated financial statements.

Other information included in the Bank's Annual Issuer Report

Other information consists of the Annual Issuer Report of the Bank, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

Responsibilities of management and the Supervisory board for the consolidated financial statements

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

In preparing the consolidated 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.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank's subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Bank. We remain solely responsible for our audit opinion.

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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 them 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 consolidated 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

26 June 2018

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

Svistich O.M.
General Director

Simak M.V.
Auditor's certificate B № 0129
Valid till 24 December 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONSOLIDATED BALANCE SHEET)

As at 31 December 2017

(thousands of Ukrainian hryvnia)

	Notes	*31 December 2017*	*31 December 2016*
Assets			
Cash and cash equivalents	6	19,866,217	21,378,517
Due from credit institutions	8	699,739	1,544,476
Loans to customers	9	67,607,544	58,469,531
Investment securities:	10		
- designated at fair value through profit or loss		28,072,289	24,064,110
- available-for-sale		48,254,711	48,193,549
- held-to-maturity		96,022	139,098
Tax assets	14	122,321	101,677
Investment property	11	1,260,398	1,344,074
Property and equipment	12	1,641,014	2,120,672
Intangible assets	13	49,505	26,778
Non-current assets held for sale		42,005	–
Deferred income tax asset	14	2,138,292	2,322,000
Other assets	16	767,916	697,747
Total assets		170,617,973	160,402,229
Liabilities			
Amounts due to credit institutions	17	23,283,787	27,931,388
Amounts due to customers	18	90,501,500	85,788,952
Eurobonds issued	19	38,821,831	37,562,345
Subordinated debt	20	3,615,792	3,495,895
Provisions for other losses	15	6,168	5,137
Other liabilities	16	324,948	258,246
Total liabilities		156,554,026	155,041,963
Equity			
Share capital	21	38,730,042	31,008,041
Revaluation reserves	21	282,951	725,335
Result from transactions with the shareholder		635,104	–
Accumulated deficit		(25,747,076)	(26,536,036)
Reserve and other funds	21	162,926	162,926
Total equity		14,063,947	5,360,266
Total equity and liabilities		170,617,973	160,402,229

Authorised for release and signed

26 June 2018

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department –
Chief Accountant N.A. Potemska

CONSOLIDATED STATEMENT OF PROFIT AND LOSS (CONSOLIDATED INCOME STATEMENT)

For the year ended 31 December 2017

(thousands of Ukrainian hryvnia)

	Notes	*2017*	*2016*
Interest income			
Loans to customers		6,908,278	8,107,630
Investment securities other than designated at fair value through profit or loss		3,934,400	4,043,335
Due from credit institutions		105,643	273,248
Amounts due from the National Bank of Ukraine		180,682	399,002
		11,129,003	12,823,215
Investment securities designed at fair value through profit or loss		1,206,683	857,196
		12,335,686	13,680,411
Interest expense			
Amounts due to customers		(4,389,571)	(5,195,463)
Eurobonds issued		(3,534,286)	(3,399,655)
Amounts due to credit institutions		(1,307,382)	(1,089,864)
Subordinated debt		(282,454)	(761,388)
		(9,513,693)	(10,446,370)
Net interest income		2,821,993	3,234,041
Allowance for loan impairment charge	8, 9	(666,076)	(5,700,145)
Net interest margin after allowance for loan impairment		2,155,917	(2,466,104)
Commission income		939,543	1,003,648
Commission expense		(333,180)	(352,117)
Commission income, net	23	606,363	651,531
Net gains from investment securities designated at fair value through profit and loss		258,257	5,314,500
Net gains/(losses) from available-for-sale investment securities:			
- dealing		(14)	–
- reversal/(losses) on impairment		3,413	–
- (losses)/net gains reclassified from other comprehensive income at redemption		(53,148)	4,365
Net gains/(losses) from foreign currencies:			
- dealing		475,807	503,559
- translation differences		(907,659)	(3,472,421)
Net gains/(losses) from precious metals:			
- dealing		682	490
- revaluation		(2,658)	(3,853)
Other income		186,978	114,937
Other non-interest income, net		(38,342)	2,461,577
Personnel expenses	24	(949,529)	(765,616)
Depreciation and amortisation	11, 12	(100,768)	(102,751)
Other operating expenses	24	(744,927)	(841,156)
Loss on initial recognition of financial assets		(116)	(7,350)
Other impairment and provisions	15	18,419	(122,487)
Non-interest expense		(1,776,921)	(1,839,360)
Profit/(loss) before tax		947,017	(1,192,356)
Income tax (expense)/ credit	14	(181,522)	215,050
Profit/(Loss) for the year		765,495	(977,306)

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26 June 2018

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department – Chief Accountant N.A. Potemska

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(thousands of Ukrainian hryvnia)

	Notes	*2017*	*2016*
Loss for the year		765,495	(977,306)
Other comprehensive loss			
Other comprehensive (loss) / income to be reclassified subsequently to the consolidated statement of profit and loss (the consolidated income statement)			
Net (losses) / gains on investment securities available-for-sale	21	(144,584)	78,912
Income tax related to components of other comprehensive income		–	–
Other comprehensive income / (loss) not to be reclassified to the consolidated statement of profit and loss (the consolidated income statement)			
Revaluation of fixed assets		(271,333)	–
Income tax related to components of other comprehensive income		(3,002)	–
Other comprehensive (loss) / income for the year, net of tax		(418,919)	78,912
Total comprehensive income / (loss) for the year		346,576	(898,394)

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26 June 2018

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department –
Chief Accountant N.A. Potemska

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONSOLIDATED STATEMENT OF EQUITY)

For the year ended 31 December 2017

(thousands of Ukrainian hryvnia)

	Share capital	*Revaluaion reserve*	*Result from transactions with the shareholder*	*Accumulated deficit*	*Reserve and other funds*	*Total capital*
As at 1 January 2016	21,689,042	664,823	–	(25,577,130)	162,926	(3,060,339)
Loss for the year	–	–	–	(977,306)	–	(977,306)
Other comprehensive loss for the year	–	78,912	–	–	–	78,912
Total comprehensive loss for the year	–	78,912	–	(977,306)	–	(898,394)
Depreciation of revaluation reserve, net of tax (Note 21)	–	(18,400)	–	18,400	–	–
Increase in share capital (Note 21)	9,318,999	–	–	–	–	9,318,999
As at 31 December 2016	31,008,041	725,335	–	(26,536,036)	162,926	5,360,266
Income for the year	–	–	–	765,495	–	765,495
Other comprehensive income for the year	–	(418,919)	–	–	–	(418,919)
Total comprehensive loss for the year	–	(418,919)	–	765,495	–	346,576
The effect of the initial recognition of state bonds received as the shareholder’s contribution (Note 21)	–	–	635,104	–	–	635,104
Depreciation of revaluation reserve, net of tax (Note 21)	–	(18,029)	–	18,029	–	–
Transfer of revaluation reserve at disposal (Note 21)	–	(5,436)	–	5,436	–	–
Increase in share capital (Note 21)	7,722,001	–	–	–	–	7,722,001
As at 31 December 2017	38,730,042	282,951	635,104	(25,747,076)	162,926	14,063,947

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26 June 2018

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department – Chief Accountant N.A. Potemska

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017
(direct method)

(thousands of Ukrainian hryvnia)

	Notes	*2017*	*2016*
Cash flows from operating activities			
Interest received		10,713,444	11,158,861
Interest paid		(9,309,543)	(10,457,406)
Commissions received		940,365	897,256
Commissions paid		(332,899)	(349,227)
Result from dealing in foreign currencies and precious metals		476,489	508,414
Personnel expenses paid		(884,572)	(774,687)
Other operating income received		145,935	95,474
Other operating and administrative expenses paid		(633,826)	(716,322)
Cash flow from operating activities before changes in operating assets and liabilities		1,115,393	362,363
Net (increase)/decrease in operating assets			
Due from credit institutions		844,122	2,695,350
Loans to customers		(6,092,764)	(1,444,595)
Other assets		(64,241)	(28,785)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(784,945)	992,116
Amounts due to the National Bank of Ukraine		1,765	(2,979,217)
Amounts due to customers		1,404,766	(511,698)
Other liabilities		25,167	52,088
Net cash flows from operating activities before income tax		(3,550,737)	(862,378)
Income tax paid		(22,871)	(194,916)
Net cash flows from operating activities		(3,573,608)	(1,057,294)
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		20,717,619	28,848,132
Purchase of investment securities		(14,828,226)	(30,030,454)
Dividends received		106	24
Purchases of property, equipment and intangible assets		(86,699)	(62,498)
Proceeds from sale of property and equipment		129,859	238
Purchases of investment property		(1,555)	(12,306)
Proceeds from sale of investment property		13,709	77,467
Net cash flows from investing activities		5,944,813	(1,179,397)
Cash flows from financing activities			
Redemption of subordinated debt		–	(6,203,838)
Proceeds from borrowings from credit institutions		1,363,320	6,878,653
Repayment of borrowings from credit institutions		(5,981,091)	(2,360,983)
Net cash flows from financing activities	7	(4,617,771)	(1,686,168)
Effect of exchange rates changes on cash and cash equivalents		734,266	1,060,197
Net change in cash and cash equivalents		(1,512,300)	(2,862,662)
Cash and cash equivalents, 1 January		21,378,517	24,241,179
Cash and cash equivalents, 31 December	6	19,866,217	21,378,517

Authorised for release and signed

26 June 2018

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department –
Chief Accountant N.A. Potemska

1. Principal activities

Joint Stock Company "The State Export-Import Bank of Ukraine" (hereinafter – "UkrEximBank") was founded in 1992. UkrEximBank operates under banking licence No. 2 dated 5 October 2011 and a general licence of National Bank of Ukraine to conduct foreign currency transactions No. 2-2 dated 18 November 2016.

As at 31 December 2017 and 2016, 100% of UkrEximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

UkrEximBank's head office is in Kyiv at 127 Antonovycha Str. It has 24 branches and 41 operating outlets (31 December 2016: 24 branches and 59 operating outlets) and 2 representative offices located in London and New-York. UkrEximBank and its branches form a single legal entity.

Traditionally the main focus of UkrEximBank's operations was the servicing of various export-import transactions. Currently UkrEximBank's customer base is diversified and includes a number of large industrial and state owned enterprises. UkrEximBank accepts deposits from the public and makes loans, transfers payments in Ukraine and internationally, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the main activities of UkrEximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. UkrEximBank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements.

The "UkrEximBank" aim (in accordance with the Charter) is to create favorable conditions for economic development and support domestic producers, export and import operations, credit and financial support of restructuring processes, strengthening and implementation of industrial and trade potential of industries and manufacturers that are export-oriented or carry out activities related to the production of import-substituting products, and also gains received in the interests of the UkrEximBank and its shareholder.

These annual consolidated financial statements comprise UkrEximBank and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is as follows:

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and registered in Ukraine, and operates in the trading and leasing business.

"Eximleasing" Ltd, a 100% owned subsidiary was founded in 2006 and registered in Ukraine, and operates in the trading and leasing business.

2. Basis of preparation of financial statements

General information

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The annual consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies, for example investment securities available-for-sale, investment securities designated at fair value through profit or loss, buildings and investment property have been measured at fair value.

These annual consolidated financial statements are presented in thousands of Ukrainian hryvnia ("UAH") unless otherwise indicated.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies

Changes in accounting policies

In reporting period 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 both the current and the comparative period in Note 7.

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

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

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

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

Basis of consolidation

Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Bank controls because the Bank (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Bank has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Bank may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Bank assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Bank from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Bank, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Bank's policies.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 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 initially recognised, 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, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits itself to purchase an asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets, designated at fair value through profit or loss at inception, are included in the item 'Investment Securities' of the consolidated statement of financial position (the consolidated balance sheet).

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

If the Bank is unable to determine the value of the embedded derivative separately at the acquisition date or at the end of the next financial reporting period, these financial assets are accounted at fair value with changes through 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 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 measured at amortised cost. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the investments are impaired, as well as through the amortisation process.

3. Summary of accounting policies (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These loans and receivables are not entered into with the intention of either immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the loans and receivables are derecognised or impaired, as well as 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 in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value 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 reclassified to the consolidated statement of profit and loss (the consolidated income statement). However, interest calculated using the effective interest method is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Determination of fair value

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 for financial instruments traded in active market at the reporting date is based on publicly available market prices or direct dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading ceases to be held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category into one of the following:

- 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 originally held for trading may be reclassified to available-for-sale or held to maturity categories only in exceptional 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 if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

3. Summary of accounting policies (continued)

Financial assets (continued)

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss (consolidated income statement) is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as appropriate.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, excluding restricted mandatory reserves, amounts due from credit institutions and reverse repurchase agreements that mature within ninety days of the date of origination and are free from contractual encumbrances, and are not impaired individually.

Precious metals

Gold and other precious metals are recorded at fair value, which approximate the NBU bid prices and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as revaluation differences from precious metals in the consolidated statement of profit and loss (the consolidated income statement).

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments including swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are derived based on quoted market prices or valuation models that take into account current and contractual market prices of the underlying instruments and any other relevant factors. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit and loss (the consolidated income statement) as net gains/(losses) from foreign currencies and precious metals dealing.

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.

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, debt securities issued, Eurobonds issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position (the consolidated balance sheet) and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Leases

i. Finance – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is recognised based on a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating – Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. 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.

iii. Operating – Bank as a lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position (the consolidated balance sheet) according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If there is an 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 impairment allowance account and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement). Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated impairment 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. 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 impairment allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of profit and loss (the consolidated income statement).

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

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

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 the consolidated statement of profit and loss (the consolidated income statement).

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 consolidated statement of profit and loss (the consolidated income statement).

Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each reporting 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 acquisition 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 consolidated income statement – is reclassified from other comprehensive income and recognised in the consolidated statement of profit and loss (the consolidated income statement). Impairment losses on equity investments are not reversed through the consolidated statement of profit and loss (the consolidated income statement); increases in their fair value after impairment are recognised directly in other comprehensive income.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as amounts due from credit institutions and loans to customers. 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. The interest income is recorded in the consolidated statement of profit and loss (the consolidated income statement). If, in a subsequent year the fair value of a debt instrument increases and the increase is objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit and loss (the consolidated income statement), the impairment loss is reversed through the consolidated statement of profit and loss (the consolidated income statement).

Renegotiated loans

Where possible, the Bank seeks to renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such renegotiation is as follows:

- If the currency of the loan has been changed the old loan is derecognised and a new loan is recognised.
- If the loan renegotiation is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower, the loan is not recognised as impaired.
- If the loan is impaired after renegotiation, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before renegotiation is included in the impairment charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to be met. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original or current effective interest rate.

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.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 consolidated statement of profit and loss (the consolidated income statement).

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the fee received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the unamortised fee and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit and loss (the consolidated income statement). The premium received is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the life of the guarantee.

Commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Taxation (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are recorded in other operating expenses in the consolidated statement of profit and loss (the consolidated income statement).

Property and equipment

Equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

Following initial recognition at cost, buildings and land are subsequently carried at their 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 the property revaluation reserve which is included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of profit and loss (the consolidated income statement), in which case the increase is recognised in the consolidated statement of profit and loss (the consolidated income statement). A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the property revaluation reserve.

A quarterly transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Specifically, the accumulated depreciation at the revaluation date is subtracted from the original (revalued) cost of property, plant and equipment, and the resulting net carrying amount is revalued to its fair value. The revalued amount of an asset as at the revaluation date equals its fair value and the accumulated depreciation equals zero. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings / (accumulated deficit).

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

	Years
Buildings	15-75 years
Furniture and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (refurbishment costs for premises under lease contract) are depreciated over a period not exceeding the leasing period. The asset's residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation.

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

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

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value.

Market value of the Bank’s investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property in similar locations and categories.

Assets held for sale

The Bank classifies a non-current asset 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 must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the prospective sale is deemed feasible.

The prospective sale is deemed feasible if the Bank’s management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan has been initiated. Furthermore, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and 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 as held for sale.

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provision

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Retirement and other benefit obligations

The Bank has contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under “Personnel expenses”. Unpaid contributions are recorded as a liability. The Bank has no other post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital. Profit or loss arising from transactions with the shareholder is recognised in equity under “Result from transactions with the shareholder”.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial institutions and investments.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position (the consolidated balance sheet) but are disclosed unless the possibility of any future outflow is considered remote. A contingent asset is not recognised in the consolidated statement of financial position (the consolidated balance sheet) but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group 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.

Commission income

The Bank earns fee and commission income from the diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees arising for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

3. Summary of accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss (the consolidated income statement) as gains less losses from foreign currencies – translation differences. 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2017 and 2016 were UAH 28.0672 and UAH 27.1909 to 1 US dollar and UAH 33.4954 and UAH 28.4226 to 1 euro, respectively.

Future changes in accounting policies

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

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. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 16 Leases

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

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

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

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

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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

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

Transfers of Investment Property – Amendments to IAS 40

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

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 recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information.

Based on the data as at 31 December 2017 and current implementation status, the Bank estimates that the adoption of IFRS 9 will result in a decrease in shareholders' equity as at 1 January 2018 of approximately UAH 5 billion.

(a) Classification and measurement

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

- Instruments that are managed on a "hold to collect" basis are measured at 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.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

The Bank expects to continue measuring at fair value all financial assets currently held at fair value. The Bank expects to designate some shares in non-listed companies as FVOCI.

Trading debt securities will continue to be classified as FVPL. Debt securities currently classified as available-for-sale are expected to be measured at FVOCI under IFRS 9 as the Bank expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. All loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

(b) 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.

At initial application of IFRS 9, compared with IAS 39, the amount of estimated allowance for expected loan losses (ECL) did not change significantly for loans at Stage 1 (loans without significant increase in credit risk) and Stage 2 (loans that have indicators of significant increase in credit risk). Allowance will increase mainly for loan at Stage 3 (loans with indicators of impairment since initial recognition). Such increase is connected with use of few individual cash flows assessment csenaios of the borrowers (optimistic, basic, pessimistic) in accordance with requirements of IFRS 9.

4. Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 1,950,877 thousand and UAH 4,826,664 thousand (2016: UAH 1,843,242 thousand and UAH 4,084,821 thousand), respectively. The Bank increased or decreased by 10% probability of default (PD) for each individual customer and calculated deviation (increase or decrease) of the impairment provision compared to the actual provision in the calculation of the above provision sensitivity to changes in actual loss experience compared to the estimated.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

(thousands of Ukrainian hryvnia, unless otherwise stated)

4. Significant accounting judgements and estimates (continued)

Deferred income tax assets

The recognised deferred tax asset in the amount of UAH 2,138,292 thousand (31 December 2016: UAH 2,322,000 thousand) represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position (consolidated balance sheet). Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a 3-year business plan and forecast for 2020-2021, prepared by management. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the management expectations include stabilisation of the economy of Ukraine together with the recovery of the whole banking sector's profitability in 2017, as well as moderate growth in loan portfolio and reduced loan loss provisions charges due to the expected improvement in the economy. Taking into account planned future profits for 2017-2021 and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

5. Segment information

For management purposes, the Bank recognizes the following operating segments (business units):

Retail banking	Business Unit focussing on servicing retail customers on the full list of products, and selling products that are mainly in standardized form (as per the tariffs approved and the standard procedures) and generally do not require individual approach.
Corporate banking	Business Unit focussing on corporate customers selling products that require individual approach and are mainly offered to corporate clients.
Inter-bank and investments business	Business Unit focussing on the provision of services to participants in the financial markets (money, currency, stock, etc.) and the sale of products related to transactions on the financial markets.

The Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured taking into account income and expenses from other segments.

Unallocated amounts include:

- Income tax receivables and payables, the share of assets and costs associated with the work of the Bank's TOP management, i.e. personnel performing general management functions at the level of the whole Bank's system and the Bank's staff, supporting directly the work of TOP management;
- The result of the revaluation of open currency position (except part of open currency position separated by the Bank for purchase/sale/conversion transactions of foreign cash and precious metals and foreign non-cash);
- The difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

For the purposes of segment reporting interest is split on the basis of uniform transfer rates set by the Assets and Liabilities Committee based on the borrowing rate of the Bank.

During the twelve months ended 31 December 2017, the Bank had revenues from transactions with a single external customer, that accounted for more than 10% of the total income of the Bank, of UAH 4,827,725 thousand (twelve months of the year 2016: UAH 4,346,780 thousand). Revenue from transactions with the external customer is reflected in the segment "Inter-bank and investments business".

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

Analysis of income of the Bank by banking products and services is presented in the profit and loss (interest income and expenses) and Note 23 (Fee and commission income and expenses).

Geografical information

Most revenues and capital expenditure relates to Ukraine. The Bank has no significant revenue from other contries. Geographical analysis of assets and liabilities is disclosed in Note 25.

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2017:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	437,804	6,489,340	5,408,542	–	12,335,686
Commission income	526,763	387,166	25,614	–	939,543
Other income	15,216	113,884	5,465	52,413	186,978
Net gains from foreign currencies	149,256	165,049	211,562	–	525,867
Net gains from precious metals	490	–	2,587	–	3,077
Net gains from investment securities for sale	–	–	–	3,407	3,407
Net gains from investment securities designated at fair value through profit and loss	–	–	–	258,257	258,257
Reversal of allowance for loan impairment	41,449	–	–	1	41,450
Reversal of other impairment and provision	–	4,500	46,279	–	50,779
Income from other segments	2,603,929	3,162,623	5,486,154	(11,252,706)	–
Total income	3,774,907	10,322,562	11,186,203	(10,938,628)	14,345,044
Interest expenses	(1,898,426)	(2,492,154)	(5,123,113)	–	(9,513,693)
Commission expense	(206,500)	(115,544)	(10,671)	(465)	(333,180)
Charge to allowance for loan impairment	–	(682,126)	(25,400)	–	(707,526)
Loss from foreign currencies	–	–	–	(957,719)	(957,719)
Loss from precious metals	–	–	–	(5,053)	(5,053)
Loss from investment securities for sale	–	–	(8)	(53,148)	(53,156)
Personnel expenses	(444,820)	(303,344)	(72,722)	(128,643)	(949,529)
Depreciation and amortisation	(59,801)	(28,521)	(4,304)	(8,142)	(100,768)
Other operating expenses	(396,622)	(179,265)	(29,385)	(139,655)	(744,927)
Charge for other impairment and provisions	(31,740)	–	–	(620)	(32,360)
Loss on initial recognition of financial assets	–	–	(116)	–	(116)
Expenses from other segments	(312,486)	(5,182,262)	(4,960,569)	10,455,317	–
Segment results	424,512	1,339,346	959,915	(1,776,756)	947,017
Income tax charge					(181,522)
Profit for the period					765,495
Assets and liabilities as at 31 December 2017					
Segment assets	5,122,802	67,677,723	95,345,081		168,145,606
Unallocated assets				2,472,367	2,472,367
Total assets					170,617,973
Segment liabilities	36,091,973	54,774,212	65,426,841		156,293,026
Unallocated liabilities				261,000	261,000
Total liabilities					156,554,026
Other segment information					
Capital expenditure	(52,323)	(23,475)	(3,545)	(6,705)	(86,048)

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

Geografical information (continued)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2016:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	462,408	7,679,379	5,538,624	–	13,680,411
Commission income	496,906	485,902	20,840	–	1,003,648
Other income	19,115	52,543	21,771	21,508	114,937
Net gains from foreign currencies	136,169	171,141	263,249	4,365	574,924
Net gains from precious metals	525	2	8,362	–	8,889
Net gains from investment securities designated at fair value through profit and loss	–	–	–	5,314,500	5,314,500
Reversal of allowance for loan impairment	67,765	–	–	–	67,765
Reversal of other impairment and provision	–	–	5,190	–	5,190
Income from other segments	3,142,645	3,444,592	5,832,165	(12,419,402)	–
Total income	4,325,533	11,833,559	11,690,201	(7,079,029)	20,770,264
Interest expenses	(2,417,930)	(2,778,451)	(5,249,989)	–	(10,446,370)
Commission expense	(161,937)	(174,774)	(15,055)	(351)	(352,117)
Charge to allowance for loan impairment	–	(5,493,557)	(274,353)	–	(5,767,910)
Loss from foreign currencies	–	–	–	(3,539,421)	(3,539,421)
Loss from precious metals	–	–	–	(12,252)	(12,252)
Personnel expenses	(327,929)	(252,625)	(85,348)	(99,714)	(765,616)
Depreciation and amortisation	(57,506)	(29,463)	(7,009)	(8,773)	(102,751)
Other operating expenses	(464,135)	(281,510)	(34,030)	(61,481)	(841,156)
Charge for other impairment and provisions	(5,319)	(118,424)	–	(3,934)	(127,677)
Loss on initial recognition of financial assets	–	–	(7,350)	–	(7,350)
Expenses from other segments	(365,978)	(5,930,676)	(5,266,461)	11,563,115	–
Segment results	524,799	(3,225,921)	750,606	758,160	(1,192,356)
Income tax credit					215,050
Loss for the period					(977,306)
Assets and liabilities as at 31 December 2016					
Segment assets	4,897,657	58,936,051	93,890,451		157,724,159
Unallocated assets				2,678,070	2,678,070
Total assets					160,402,229
Segment liabilities	34,059,319	52,575,312	68,328,691		154,963,322
Unallocated liabilities				78,641	78,641
Total liabilities					155,041,963
Other segment information					
Capital expenditure	(35,403)	(16,382)	(3,901)	(4,883)	(60,569)

The major part of the fair value gain from investment securities designated at fair value through profit or loss for twelve months of 2017 and 2016 is attributable to revaluation of government bonds indexed according to changes in the foreign exchange rate.

(thousands of Ukrainian hryvnia, unless otherwise stated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2017	*31 December 2016*
Current accounts with other credit institutions	9,243,485	8,884,608
Current account with the National Bank of Ukraine	5,383,134	5,372,785
Deposits certificates of the National Bank of Ukraine up to 90 days	2,553,260	4,006,865
Cash on hand	1,428,646	1,219,953
Overnight deposits with other credit institutions	1,257,692	1,894,306
Cash and cash equivalents	19,866,217	21,378,517

As at 31 December 2017 included in current accounts with other credit institutions is UAH 8,517,033 thousand, placed on current accounts with five OECD banks (31 December 2016: UAH 7,793,665 thousand, placed on current accounts with five OECD banks). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

As at 31 December 2017 overnight deposit in amount of UAH 1,257,692 thousand was placed with one OECD bank under market interest rate (31 December 2016: UAH 1,894,306 thousand was placed with one OECD bank).

7. Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities for 2017 are presented below:

	Amounts due to credit institutions	*Issued eurobonds*	*Subordinated debt*	*Total*
Carrying amount at 31 December 2015	17,905,991	33,122,294	9,375,369	60,403,654
Proceeds from issue	6,878,653	–	–	6,878,653
Redemption	(2,360,983)	–	(6,203,838)	(8,564,821)
Foreign currency translation	2,780,977	4,335,714	609,096	7,725,787
Other	64,048	104,337	(284,732)	(116,347)
Carrying amount at 31 December 2016	25,268,686	37,562,345	3,495,895	66,326,926
Proceeds from issue	1,363,320	–	–	1,363,320
Redemption	(5,981,091)	–	–	(5,981,091)
Foreign currency translation	662,078	1,217,262	110,380	1,989,720
Other	58,459	42,224	9,517	110,200
Carrying amount at 31 December 2017	21,371,452	38,821,831	3,615,792	63,809,075

The “Other” line includes the effect of accrued but not yet paid interest on amounts due to credit institutions, eurobonds issued and subordinated loans. The Bank classifies interest paid as cash flows from operating activities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2017	*31 December 2016*
Loans and deposits	1,426,819	2,268,771
Other amounts due from credit institutions	74,480	3
Current accounts with other credit institutions in precious metals	72,891	121,567
	1,574,190	2,390,341
Less – allowance for impairment	(874,451)	(845,865)
Due from credit institutions	699,739	1,544,476

As at 31 December 2017, loans and deposits due from credit institutions include UAH 275,967 thousand of security deposits, placed mainly in respect of customers’ transactions, such as letters of credit, performance guarantees and transactions with travellers’ cheques (31 December 2016: UAH 562,063 thousand).

The movements in allowance for impairment of amounts due from credit institutions are as follows:

	Loans and deposits
At 1 January 2016	548,746
Charge	272,888
Translation differences	24,231
At 31 December 2016	845,865
Charge	27,845
Translation differences	741
At 31 December 2017	874,451

9. Loans to customers

Loans to customers comprise:

	31 December 2017	*31 December 2016*
Commercial loans	115,044,665	103,403,198
Overdrafts	709,605	456,206
Financial lease receivables	67,299	94,664
Promissory notes	52,614	66,270
	115,874,183	104,020,338
Less – allowance for impairment	(48,266,639)	(45,550,807)
Loans to customers	67,607,544	58,469,531

(thousands of Ukrainian hryvnia, unless otherwise stated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 1 January 2017	45,512,446	31,920	5,135	1,306	45,550,807
Charge/(reversal) for the year	642,389	(4,779)	905	(284)	638,231
Recoveries	98,834	–	–	–	98,834
Amounts written-off	(133,029)	–	(152)	–	(133,181)
Translation differences	2,111,946	2	–	–	2,111,948
At 31 December 2017	48,232,586	27,143	5,888	1,022	48,266,639
Individual impairment	46,966,970	16	4,644	–	46,971,630
Collective impairment	1,265,616	27,127	1,244	1,022	1,295,009
	48,232,586	27,143	5,888	1,022	48,266,639
Gross amount of loans, individually determined to be impaired, before deducting any impairment allowance	68,037,199	19	4,645	–	68,041,863

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 1 January 2016	40,806,110	23,916	17,736	449	40,848,211
Charge/(reversal) for the year	5,419,068	8,004	(672)	857	5,427,257
Recoveries	122,067	–	–	–	122,067
Amounts written-off	(4,716,434)	–	(11,929)	–	(4,728,363)
Translation differences	3,881,635	–	–	–	3,881,635
At 31 December 2016	45,512,446	31,920	5,135	1,306	45,550,807
Individual impairment	43,921,740	18,807	5,135	–	43,945,682
Collective impairment	1,590,706	13,113	–	1,306	1,605,125
	45,512,446	31,920	5,135	1,306	45,550,807
Gross amount of loans, individually determined to be impaired, before deducting any impairment allowance	65,238,467	132,036	5,135	–	65,375,638

Individually impaired loans

As at 31 December 2017 interest income on loans, for which individual impairment has been recognised, amounts to UAH 1,519,423 thousand (2016: UAH 2,285,310 thousand).

In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors.

Collateral and other credit enhancements

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

9. Loans to customers (continued)

Collateral and other credit enhancements (continued)

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions – cash or securities;
- For commercial lending – charges over real estate properties, inventory and trade receivables;
- For retail lending – mortgages over residential properties and vehicles.

The Bank 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, UAH 470,144 of customers deposits are pledged as collateral for loans to customers (31 December 2016: UAH 445,349 thousand) (Note 18).

Concentration of loans to customers

As at 31 December 2017, the Bank has a concentration of loans represented by UAH 55,624,357 thousand due from the ten largest borrowers (48.00% of gross loan portfolio) (31 December 2015: UAH 46,472,276 thousand or 44.68%). An allowance of UAH 20,763,109 thousand has been recognised against these loans (31 December 2016: UAH 19,694,698 thousand).

Loans and advances have been extended to the following types of customers:

	31 December 2017	*31 December 2016*
Legal entities	86,366,875	82,390,783
State entities	28,107,432	20,039,806
Individuals	1,382,786	1,333,388
Municipal and utility entities	17,090	256,361
	115,874,183	104,020,338

Loans are made principally within Ukraine to companies of the following industry sectors:

	31 December 2017	*%*	*31 December 2016*	*%*
Extractive industry	17,946,195	15.5	12,316,626	11.8
Agriculture and food industry	15,755,661	13.6	18,717,772	18.0
Trade	13,356,071	11.5	11,744,970	11.3
Chemical industry	10,506,859	9.1	9,737,760	9.4
Real estate	8,939,303	7.7	8,699,429	8.4
Power engineering	8,906,034	7.7	5,251,422	5.0
Mechanical engineering	8,543,387	7.4	7,655,099	7.4
Construction	6,459,215	5.6	6,126,703	5.9
Metallurgy	6,424,502	5.5	6,203,129	6.0
Production of construction materials	5,207,854	4.5	4,338,374	4.2
Hotels and restaurant	4,667,735	4.0	4,337,384	4.2
Production of rubber and plastic goods	2,540,034	2.2	2,623,755	2.5
Transport and communications	1,676,440	1.4	2,032,035	1.9
Individuals	1,382,786	1.2	1,333,388	1.3
Pulp and paper industry	1,114,220	1.0	904,725	0.9
Finance	428,583	0.4	418,232	0.4
Metal processing	369,100	0.3	154,732	0.1
Other processing activity	365,368	0.3	151,920	0.1
Light industry	347,765	0.3	185,233	0.2
Wood processing	293,125	0.3	252,426	0.2
Other	643,946	0.5	825,224	0.8
	115,874,183	100.0	104,020,338	100.0

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2017, "Other" category included loans issued to customers, which are registered in the free economic zone of the Crimea in amount of UAH 270,030 thousand (31 December 2016: UAH 267,477 thousand) with UAH 270,030 thousand of allowance for impairment provided for these loans (31 December 2016: UAH 267,477 thousand).

Finance lease receivables are included in the corporate lending portfolio . They may be analysed as follows:

	2017	*2016*
Gross investment in finance leases, receivable:		
Less than 1 year	50,007	61,286
From 1 to 5 years	28,724	63,669
	78,731	124,955
Unearned future finance income on finance leases	(11,432)	(30,291)
Net investment in finance leases	67,299	94,664

	2017	*2016*
Net investment in finance leases, receivable:		
Less than 1 year	41,282	42,497
From 1 to 5 years	26,017	52,167
Net investment in finance leases	67,299	94,664

10. Investment securities

Investment securities at fair value through profit or loss

As at 31 December 2017 investment securities at fair value through profit or loss with a carrying value of UAH 28,072,289 thousand (31 December 2016: UAH 24,064,110 thousand) were represented by the government bonds. The nominal value (principle) of these government bonds is indexed to an increase in exchange rate of UAH to USD between weighted average monthly exchange rate at the interbank market for a month prior the issue and a month before the maturity date. Coupon is not subject to indexation.

The Bank decided not to account separately embedded derivative and assessed financial instrument at fair value through profit or loss.

Investment Securities Available-for-Sale

	31 December 2017	*31 December 2016*
Ukrainian state bonds	46,698,684	46,163,120
Corporate bonds	1,540,930	2,018,739
Corporate shares	15,097	11,690
Available-for-sale investments	48,254,711	48,193,549

For the year ended 31 December 2017, the Bank recognised recovery on impairment of investment securities available-for-sale in amount of UAH 3,413 thousand (for the year ended 31 December 2016, the Bank didn't recognize losses or recovery on impairment).

As at 31 December 2017 amount of cumulatively recognized losses of impairment of those securities in previous periods was UAH 3,431,646 thousand (31 December 2016: 3,646,282 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Investment securities (continued)

Held-to-maturity investment securities comprise the following:

	31 December 2017		*31 December 2016*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
Ukrainian state bonds	98,164	96,022	147,246	139,098
Held-to-maturity investments		96,022		139,098

11. Investment property

The movements of investment property are as follows:

	2017	*2016*
Investment property as at 1 January	1,344,074	1,566,942
Transfer from fixed asset category	6,579	–
Additions	1,620	12,306
Disposals	(12,556)	(74,551)
Net loss from fair value remeasurement	(39,274)	(160,610)
Transfer to non-current assets held for sale	(40,045)	–
Transfer to owner occupied property	–	(13)
Investment property as at 31 December	1,260,398	1,344,074

In 2017 the Bank revalued its investment property. The valuation was performed by internal appraiser specialist who has appropriate professional qualifications and years of experience in valuation of similar properties in Ukraine. The valuation basic approach applied was the comparative approach.

The Bank leased out a portion of its investment property under operating lease agreements. Future minimum receivables under non-cancellable operating leases comprise the following:

	31 December 2017	*31 December 2016*
Less than 1 year	15,123	19,384
From 1 to 5 years	374	8,205
Future minimum receivables under non-cancellable operating lease	15,497	27,589

During 2017 the Bank has recognised rental income of UAH 32,990 thousand (2016: UAH 31,082 thousand), included in other income in the consolidated statement of profit and loss (the consolidated income statement).

(thousands of Ukrainian hryvnia, unless otherwise stated)

12. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construc-tion in progress*	*Total*
Cost or revalued amount							
At 31 December 2016	1,878,618	9,010	449,689	233,002	20,848	139,024	2,730,191
Additions	132	–	36,057	7,929	–	10,389	54,507
Disposals	–	(3,568)	(4,145)	(1,036)	(339)	(90,079)	(99,167)
Transfer from investment property	(6,570)	–	–	(42)	–	–	(6,612)
Transfers	3,268	516	–	–	–	(3,784)	–
Subtraction of accumulated depreciation on revaluation	(91,486)	–	–	–	–	–	(91,486)
Revaluation of fixed assets	(346,091)	–	–	–	–	–	(346,091)
At 31 December 2017	1,437,871	5,958	481,601	239,853	20,509	55,550	2,241,342
Accumulated depreciation							
At 31 December 2016	(62,768)	(8,347)	(348,707)	(170,548)	(19,149)	–	(609,519)
Charge for the year	(30,902)	(288)	(44,257)	(14,675)	(1,182)	–	(91,304)
Disposals	–	3,459	4,143	1,035	339	–	8,976
Transfer to investment property category	12	–	–	21	–	–	33
Write-off of accumulated depreciation on re-evaluation	91,486	–	–	–	–	–	91,486
At 31 December 2017	(2,172)	(5,176)	(388,821)	(184,167)	(19,992)	–	(600,328)
Net book value							
At 31 December 2016	1,815,850	663	100,982	62,454	1,699	139,024	2,120,672
At 31 December 2017	1,435,699	782	92,780	55,686	517	55,550	1,641,014

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construc-tion in progress*	*Total*
Cost or revalued amount							
At 31 December 2015	1,876,746	12,277	425,130	226,578	28,831	132,580	2,702,142
Additions	56	–	29,081	9,083	–	8,475	46,695
Disposals	–	(3,392)	(4,522)	(2,672)	(7,983)	(90)	(18,659)
Transfer from investment property	–	–	–	13	–	–	13
Transfers	1,816	125	–	–	–	(1,941)	–
At 31 December 2016	1,878,618	9,010	449,689	233,002	20,848	139,024	2,730,191
Accumulated depreciation							
At 31 December 2015	(31,491)	(10,854)	(312,677)	(152,631)	(23,545)	–	(531,198)
Charge for the year	(31,277)	(885)	(40,552)	(20,545)	(2,883)	–	(96,142)
Disposals	–	3,392	4,522	2,628	7,279	–	17,821
At 31 December 2016	(62,768)	(8,347)	(348,707)	(170,548)	(19,149)	–	(609,519)
Net book value							
At 31 December 2015	1,845,255	1,423	112,453	73,947	5,286	132,580	2,170,944
At 31 December 2016	1,815,850	663	100,982	62,454	1,699	139,024	2,120,672

As at 31 December 2017, buildings, leasehold improvements and other items of property, plant and equipment include assets with a cost or revalued amount of UAH 365,321 thousand which are fully depreciated (31 December 2016: UAH 311,648 thousand). These assets are still used by the Bank.

As at 31 December 2017, the Bank had capital commitments for the acquisition of property, plant and equipment of UAH 4,616 thousand (31 December 2016: UAH 5,970 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

12. Property and equipment (continued)

As at 1 March and 1 August of each year the Bank performs testing of fair value of buildings. On the basis of such testing the deviation between fair value of buildings and their carrying value is calculated. The amount of the calculated deviations reviewed for the significance of the impact on the financial statements of the Bank, and carries out a revaluation in case of significant deviation.

Regardless of the results of the fair value of buildings, the Bank carries out a valuation no less than once every three years. Considering the last revaluation in 2014, the Bank decided to carry out valuation of buildings in 2017.

In 2017, the Bank revalued its buildings. The valuation was performed by independent appraisers and fair value was determined using comparative and income approaches taking into account market information.

In 2017 as a result of buildings revaluation, the Bank recognized loss of decline in the fair value in amount of UAH 74,758 thousand in statement of profit and loss and in amount of UAH 271,333 thousand in statement of comprehensive income.
If the buildings were reported at cost as at 31 December 2017, the carrying value would be as follows:

	31 December 2017 (revalued)	*31 December 2017 (at cost)*	*31 December 2016 (revalued)*	*31 December 2016 (at cost)*
Cost	1,437,871	1,041,422	1,878,618	1,039,055
Accumulated depreciation	(2,172)	(177,567)	(62,768)	(164,996)
Residual value	1,435,699	863,855	1,815,850	874,059

13. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
At 31 December 2016	80,228
Additions	32,191
Disposals	(54)
At 31 December 2017	112,365
Accumulated depreciation	
At 31 December 2016	(53,450)
Charge for the year	(9,464)
Disposals	54
At 31 December 2017	(62,860)
Net book value	
At 31 December 2016	26,778
At 31 December 2017	49,505

(thousands of Ukrainian hryvnia, unless otherwise stated)

13. Intangible assets (continued)

	Computer software and licences
Cost	
At 31 December 2015	64,785
Additions	15,803
Disposals	(360)
At 31 December 2016	80,228
Accumulated depreciation	
At 31 December 2015	(47,201)
Charge for the year	(6,609)
Disposals	360
At 31 December 2016	(53,450)
Net book value	
At 31 December 2015	17,584
At 31 December 2016	26,778

As at 31 December 2017, intangible assets include assets with a cost of UAH 41,085 thousand which have been fully amortised (31 December 2016: UAH 39,923 thousand). These assets are still used by the Bank.

As at 31 December 2017, the Bank had capital commitments for the acquisition of intangible assets of UAH 19,125 thousand (31 December 2016: UAH 10,569 thousand).

14. Income tax

The corporate income/expenses tax charge comprises:

	2017	*2016*
Current tax charge	(816)	(376,200)
Deferred tax credit	(180,706)	591,250
(Charge)/income tax credit	(181,522)	215,050

As at 31 December 2017, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 18% (31 December 2016: 18%).

Current income tax assets and liabilities consist of the following:

	31 December 2017	*31 December 2016*
Current tax assets	122,321	101,677
Deferred income tax assets	2,138,292	2,322,000
Income tax assets	2,260,613	2,423,677

(thousands of Ukrainian hryvnia, unless otherwise stated)

14. Income tax (continued)

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax charge based on the statutory rate with the actual rate is as follows:

	2017	*2016*
Profit / (loss) before tax	947,017	(1,192,356)
Statutory tax rate	18%	18%
(Charge) / income tax credit at the statutory rate	(170,463)	214,624
Changes in unrecognised deferred tax asset	124,491	34,110
Income recognised for tax purposes only	(114,319)	–
Non-deductible expenditures	(21,231)	(33,684)
(Charge) / income tax credit	(181,522)	215,050

Deferred tax assets and liabilities include:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	1 January 2016	*In the consolidated statement of profit and loss (in the consolidated income statement)*	*In the consolidated statement of compre-hensive income*	*31 December 2016*	*In the consolidated statement of profit and loss (in the consolidated income statement)*	*In the consolidated statement of compre-hensive income*	*31 December 2017*
Tax effect of deductible temporary differences							
Allowance for impairment of assets and liabilities	2,863,777	(162,846)	–	2,700,931	328,984	–	3,029,915
Valuation of financial instruments	79,998	(1)	(12,260)	67,737	(22,134)	26,025	71,628
Accrued interest on the debt (financial liabilities)	–	717,822	–	717,822	(717,822)	–	–
Other assets	2,257	1,077	–	3,334	(3,334)	–	–
Tax losses carried forward	–	–	–	–	48,804	–	48,804
Deferred income tax assets	2,946,032	556,052	(12,260)	3,489,824	(365,502)	26,025	3,150,347
Unrecognised deferred tax asset	(1,149,712)	34,110	12,260	(1,103,342)	124,491	(26,025)	(1,004,876)
Recognised deferred tax asset	1,796,320	590,162	–	2,386,482	(241,011)	–	2,145,471
Tax effect of taxable temporary differences							
Property, equipment and intangible assets	(65,570)	1,088	–	(64,482)	60,305	(3,002)	(7,179)
Deferred tax liabilities	(65,570)	1,088	–	(64,482)	60,305	(3,002)	(7,179)
Net deferred tax assets	1,730,750	591,250	–	2,322,000	(180,706)	(3,002)	2,138,292

For the information on the professional judgements of the management applied to the recognition of deferred tax assets refer to Note 4.

(thousands of Ukrainian hryvnia, unless otherwise stated)

15. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Other assets	*Guarantees and commitments*	*Total*
At 1 January 2016	255,304	22,213	277,517
Charge/(reversal)	140,550	(18,063)	122,487
Translation differences	4,604	987	5,591
Amounts written off	(50)	–	(50)
At 31 December 2016	400,408	5,137	405,545
Charge/(reversal)	(19,333)	914	(18,419)
Translation differences	3,574	117	3,691
Amounts written off	(2,170)	–	(2,170)
At 31 December 2017	382,479	6,168	388,647

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised in liabilities.

16. Other assets and liabilities

Other assets comprise:

	31 December 2017	*31 December 2016*
Other financial assets		
Other accrued income	328,468	328,429
Receivables on transactions with customers	215,757	211,404
Transit accounts in respect of card operations	156,452	138,880
Accued service fee on financial guarantees issued	9,431	10,208
Other	124	120
	710,232	689,041
Less: allowance for impairment (Note 15)	(309,474)	(333,326)
Other financial assets	400,758	355,715
Other assets		
Tax assets, other than income tax	259,635	259,989
Precious metals	61,197	42,477
Prepayments	57,179	50,025
Cash and cash equivalents, which existence is not confirmed	35,471	33,913
Inventories	25,313	21,127
Other	1,368	1,583
	440,163	409,114
Less: allowance for impairment (Note 15)	(73,005)	(67,082)
Other assets	367,158	342,032
Total other assets	767,916	697,747

As at 31 December 2017, prepayments include balances of UAH 11,560 thousand (31 December 2016: UAH 7,344 thousand) in respect of the acquisition of property, equipment and intangible assets, and balances of UAH 4,367 thousand (31 December 2016: UAH 4,333 thousand) in respect of the construction of branch premises.

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Other assets and liabilities (continued)

Other liabilities comprise:

	31 December 2017	*31 December 2016*
Other financial liabilities		
Transit accounts in respect of card operations	31,921	26,480
Liabilities in respect of financial guarantees issued	7,123	7,043
Transit accounts on transactions with customers	6,126	6,685
Accrued expenses	4,173	6,645
Other financial liabilities	49,343	46,853
Other liabilities		
Unused vacation accrual	74,213	61,161
Payables to Guarantee Fund of Individuals' Deposits	53,775	54,046
Accrued salary payable	74,453	22,693
Deferred income	29,196	26,675
Taxes payable other than income tax	27,705	32,804
Accounts payable	8,996	9,106
Accrued pension contribution	1,030	885
Other	6,237	4,023
Other liabilities	275,605	211,393
Total other liabilities	324,948	258,246

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2017	*31 December 2016*
Loans due to international financial organisations	20,896,851	21,878,151
Current accounts	1,823,814	2,545,460
Loans and deposits due to other banks	560,689	3,506,844
Correspondance account in NBU	2,424	659
Other amounts due to credit institutions	9	274
Amounts due to credit institutions	23,283,787	27,931,388
Held as security against guarantees (Note 22)	–	24,528

As at 31 December 2017, included in current accounts is UAH 1,234,719 thousand received from five Ukrainian banks (31 December 2016: UAH 1,626,852 thousand received from five Ukrainian banks). The amount was received under normal banking terms and conditions.

As at 31 December 2017, included in overall amount due to credit institutions is UAH 1,909,175 thousand received from Ukrainian banks (31 December 2016: UAH 2,661,207 thousand).

As at 31 December 2017, loans and deposits due to other banks and loans due to international financial organisations include UAH 474,601 thousand under agreements with foreign lenders due to purpose of funds attraction for guarantee and insurance coverage of export credit agencies, received from OECD banks, and UAH 23,813 thousand under the trade financing agreements (31 December 2016: UAH 619,938 thousand and UAH 55,457 thousand respectively). These loans are denominated in euros (31 December 2016: in US dollars and euros) and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under the above mentioned financing programmes.

(thousands of Ukrainian hryvnia, unless otherwise stated)

17. Amounts due to credit institutions (continued)

As at 31 December 2017 international financial institutions loans include loans from the International Bank for Reconstruction and Development (IBRD) within the Second Project of Export Development and Additional Financing for the Second Project of Export Development with a carrying value of UAH 6,099,080 thousand (31 December 2016 UAH 6,090,065 thousand). The total amount of these loans under the loan agreements is USD 304,500 thousand. These loans are denominated in US dollars received by the Bank with interest rate of LIBOR + spread IBRD, which is reviewed twice a year, and have a current interest rate: 1.98% and 2.28%. Loans mature in 2026 and 2041 respectively.

Loans from international financial institutions also include loans from the IBRD for the Project on Energy Efficiency in the amount of UAH 4,778,533 thousand (31 December 2016: UAH 4,454,935 thousand). The total amount of this loan under the loan agreement is USD 200,000 thousand. The loan is denominated in US dollars with an interest rate of LIBOR + spread IBRD, which is reviewed twice a year, with the current interest rate: 2.19%. The loan matures in 2040.

As at 31 December 2017 loans from international financial institutions also include loans from the European Investment Bank ("EIB") within the loan for SMEs and Mid-Caps totalling UAH 3,302,977 thousand (31 December 2016: UAH 3,370,995 thousand). The total amount of this loan under the loan agreement is equivalent of EUR 100,000 thousand. This loan are denominated in US dollars and maturing in 2023, has floating interest rates for each tranche: LIBOR + spread EIB, which is reviewed twice a year, with the current interest rate: 5.02478% and 5.435% respectively.

For the purposes of the cash flow statement presentation, the Bank allocates funds, attracted from credit institutions, between the funds for the operating and financing activities. Funds raised from the Ukrainian banks are included in the category of funds for operating activities, and funds from other banks for financing activities.

Loans due to international financial organisations and certain loans due to other banks are subject to various covenants and restrictions (Note 22).

18. Amounts due to customers

Amounts due to customers comprise:

	31 December 2017	*31 December 2016*
Current accounts		
- Legal entities	17,517,732	17,638,612
- Budget financed organisations	6,825,732	4,424,952
- Individuals	4,017,437	3,516,537
- Funds under the Bank's management	1	8,077
	28,360,902	25,588,178
Time deposits		
- Legal entities	41,077,335	39,218,415
- Individuals	21,063,263	20,982,359
	62,140,598	60,200,774
Amounts due to customers	90,501,500	85,788,952
Held as security against guarantees and avals (Note 22)	470,238	446,921
Held as security against loans to customers (Note 8)	470,144	445,349
Held as security against letters of credit (Note 22)	350,089	979,840
Held as security against undrawn loan commitments (Note 22)	3,239	1,805

As at 31 December 2017, legal entities current accounts included funds of top ten customers in the amount of UAH 3,945,266 thousand (22.5% of legal entities current accounts) (31 December 2016: UAH 5,040,774 thousand, or 28.6%).

(thousands of Ukrainian hryvnia, unless otherwise stated)

18. Amounts due to customers (continued)

As at 31 December 2017, individuals' current accounts included funds of top ten customers in the amount of UAH 140,703 thousand (3.5% of individuals' current accounts) (31 December 2016: UAH 82,185 thousand, or 2.3%).

As at 31 December 2017, term deposits of legal entities included funds raised from five customers – legal entities in the amount of UAH 29,041,841 thousand (70.7% of term deposits of legal entities) (31 December 2016: UAH 28,550,148 thousand, or 72.8%).

As at 31 December 2017, term deposits of individuals included funds raised from ten individuals in the amount of UAH 1,242,393 thousand (5.9% of term deposits of individuals) (31 December 2016: UAH 1,312,666 thousand, or 6.3%).

As at 31 December 2017, term deposits of legal entities included funds raised in gold, which are accounted at fair value through profit or loss in the amount to UAH 15,878 thousand (31 December 2016: UAH 13,624 thousand).

In accordance with Ukrainian legislation, the Bank is obliged to return time deposit to individuals on their request only on maturity date prescribed in the deposit agreement. Return of time deposit on customer request until the date of maturity or other events stated in the agreement could be done only in the sole event if it is under conditions stipulated by such agreement.

An analysis of customer accounts by economic sector is as follows:

	31 December 2017	*%*	*31 December 2016*	*%*
Agriculture and food industry	29,252,217	32.3	29,167,421	34.0
Individuals	25,080,700	27.7	24,498,896	28.6
Budget organizations	6,825,732	7.5	4,424,952	5.2
Trade	6,176,607	6.8	7,018,218	8.2
Mechanical engineering	4,168,734	4.6	3,364,349	3.9
Professional, scientific and technical activities	3,129,411	3.5	2,344,970	2.7
Finance	2,365,596	2.6	2,161,779	2.5
Information and telecommunications	1,692,675	1.9	759,109	0.9
Power engineering	1,209,384	1.3	728,272	0.7
Transport and communications	1,050,228	1.2	2,558,458	3.0
Construction	1,025,845	1.1	1,254,642	1.5
Metal processing	902,170	1.0	849,841	1.0
Production of construction materials	680,606	0.8	750,354	0.9
Real estate	661,627	0.7	564,285	0.7
Chemical industry	583,796	0.6	901,909	1.1
Extractive industry	526,133	0.6	394,394	0.5
Processing	509,829	0.6	306,911	0.4
Health protection	284,422	0.3	302,412	0.3
Wood processing	277,697	0.3	204,238	0.2
Personal services	248,019	0.3	180,711	0.2
Metallurgy	229,820	0.3	444,476	0.5
Education	201,930	0.2	187,823	0.2
Hotels and restaurants	167,975	0.2	51,821	0.1
Production of rubber and plastic goods	117,304	0.1	85,669	0.1
Light industry	97,668	0.1	75,063	0.1
Pulp and paper industry	78,810	0.1	83,619	0.1
Other	2,956,565	3.3	2,124,360	2.4
Amounts due to customers	90,501,500	100.0	85,788,952	100.0

18. Amounts due to customers (continued)

Funds under the Bank's management

The Bank acts as an asset manager in respect of certain funds related to construction financing. Amounts due to funds under the Bank's management are as follows:

	2017	*2016*
At 1 January	8,077	13,718
Funds attracted from individuals	218	50,547
Invested funds	(8,294)	(56,188)
At 31 December	1	8,077

19. Eurobonds issued

	31 December 2017		*31 December 2016*	
	Nominal value (thousand of USD)	*Carrying value*	*Nominal value (thousand of USD)*	*Carrying value*
April 2010 issue	500,000	14,243,831	500,000	13,786,149
October 2010 issue	250,000	7,121,916	250,000	6,893,074
January 2013 issue	500,000	14,546,737	500,000	14,069,268
April 2013 issue	100,000	2,909,347	100,000	2,813,854
Eurobonds issued		38,821,831		37,562,345

In April 2010, the Bank, through BIZ Finance PLC (consolidated structured company registered in the United Kingdom), issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 250,000 thousand (UAH 1,998,250 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015 and were consolidated and form a single series with the notes issued in April 2010.

Issued Eurobonds in the form of loan participation notes with a par value of USD 750,000 thousand and maturity in 2015 were reprofiled on 20 July 2015 on the following conditions:

- The coupon rate of 9.625% p.a.;
- Maturity date was rescheduled to 27 April 2022 with 50% of the principle amount payable on 27 April 2019 and the remaining part of the principle amount payable six equal semi-annual payments, starting on 27 October 2019, and to 27 April 2022.

As the change of terms did not result in derecognition of existing debt, after amending the terms of these Eurobonds the Bank continued to recognise these liabilities at amortised cost using new recalculated effective interest rate.

In January 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in January 2018.

In April 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 799,300 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in January 2018. These bonds were consolidated and comprise a single seria with the bonds issued in January 2013.

19. Eurobonds issued (continued)

Issued Eurobonds in the form of loan participation notes with a par value of USD 600,000 thousand and maturity in 2018 were reprofiled on 23 July 2015 on the following conditions:

- The coupon rate of 9.75% p.a.;
- Maturity date was rescheduled to 22 January 2025 with 50% of the principal amount payable on 22 January 2021 and the remaining part of the principal amount payable in eight equal semi-annual payments, starting on 22 July 2021, and to 22 January 2025.

As the change of terms did not result in derecognition of existing debt, after amending the terms of these Eurobonds the Bank continued to recognise these liabilities at amortised cost using new recalculated effective interest rate.

20. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 2,666,386.2 thousand) from Credit Suisse International. This loan was funded by 8.4% loan participation notes issued on a limited recourse basis by Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 842,016.7 thousand) from Credit Suisse International. This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the securities issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

On 29 May 2015 the Bank as a borrower, the Credit Suisse International as a creditor and Biz Finance Plc as a new creditor signed the second supplementary loan agreement under the terms of which Credit Suisse International was replaced by Biz Finance Plc.

On 9 July 2015 the Bank and Biz Finance Plc signed the Agreement on amendments and revisions to the loan agreement (the Agreement on funds borrowing under subordinated debt terms) of USD 125,000 thousand dated 7 February 2006 as amended by the second supplementary loan agreement dated 29 May 2015, as follows:

- Starting from 9 August 2015 the interest rate was changed to 7% p.a. + 6-months Libor rate and as at 31 December 2017 comprises 8.45222%;
- Maturity date was rescheduled to 9 February 2023 with 50% of the loan payable on 9 February 2020 and the remaining part of the loan payable in six equal semi-annual payments, starting on 9 August 2020, and to 9 February 2023.

As at 31 December 2017 the carrying value of above mentioned loan was UAH 3,615,791,9 thousand (31 December 2016: UAH 3,495,895,0 thousand).

21. Equity

As at 31 December 2017, the Bank's authorised issued share capital comprised 26,490,412 ordinary shares (31 December 2016: 21,208,750 ordinary shares) with a nominal value of UAH 1,462.04 per share (31 December 2016: 1,462.04 per share). As at 31 December 2017, 26,490,412 ordinary shares were fully paid and registered (31 December 2016: 21,208,750 these ordinary shares were fully paid and registered).

In February 2017, according to the Resolution of the Cabinet of Ministers of Ukraine No. 54 dated 1 February 2017 the Bank's share capital was increased by UAH 3,022,000 thousand through issue of 2,066,975 new shares with nominal value of UAH 1,462.04 each with 100% of these shares owned by the Government. These shares were registered in March 2017.

The Government of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state indexed bonds with the nominal value of UAH 3,022,001 thousand.

(thousands of Ukrainian hryvnia, unless otherwise stated)

21. Equity (continued)

At the date of initial recognition the difference between nominal and fair value of Ukrainian state bonds in amount of UAH 635,104 thousand was recognized in equity within the result of transactions with the shareholder.

In March 2017, according to the Resolution of the Cabinet of Ministers of Ukraine No. 123 dated 6 March 2017 the Bank's share capital was increased by UAH 4,700,001 thousand through issue of 3,214,687 additional shares with nominal value of UAH 1,462.04 each with 100% of these shares owned by the Government. These shares were registered in April 2017.

The government of Ukraine acquired the additional issue of shares by exchanging them to Ukrainian state bonds in amount of UAH 4,700,001 thousand.

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
At 1 January 2016	14,834,780	21,689,042	21,689,042
Shares issued	6,373,970	9,318,999	9,318,999
At 31 December 2016	21,208,750	31,008,041	31,008,041
Shares issued	5,281,662	7,722,001	7,722,001
At 31 December 2017	26,490,412	38,730,042	38,730,042

Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property revaluation reserve	*Unrealised gains/(losses) on investment securities available for sale*	*Revaluation reserves*
At 1 January 2016	1,040,263	(375,440)	664,823
Depreciation of revaluation reserve, net of tax	(18,400)	–	(18,400)
Net (loss)/profit from from investment securities available-for-sale, including:	–	78,912	78,912
Net losses on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	–	(4,365)	(4,365)
Net unrealised gains on available-for-sale investment securities	–	83,277	83,277
At 31 December 2016	1,021,863	(296,528)	725,335
Depreciation of revaluation reserve, net of tax	(18,029)	–	(18,029)
Transfer of property revaluation reserve at disposal	(5,436)	–	(5,436)
Revaluation of property	(271,333)	–	(271,333)
Income tax related to components of other comprehensive income	(3,002)	–	(3,002)
Net (loss)/profit from from investment securities available-for-sale, including:	–	(144,584)	(144,584)
Net gains on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	–	53,148	53,148
Net unrealized losses from investment securities available-for-sale	–	(197,732)	(197,732)
31 December 2017	724,063	(441,112)	282,951

21. Equity (continued)

Nature and purpose of revaluation reserves

Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/(losses) on investment securities available-for-sale

This reserve records changes in fair value of available-for-sale investments.

Reserves and other funds of the Bank

The reserve fund is created in accordance with the Charter until it achieves 25 per cent of the regulatory capital at the beginning of each year. The size of the allocations to the reserve fund is not less than 5 per cent of the Bank's annual profit. The reserve fund is created for unforeseen losses for all assets and off-balance sheet commitments.

The Bank's distributable reserves are determined by the amount of the reserves according to the Bank's accounts. As at 31 December 2017 the amount of non-distributable reserves was UAH 445,877 thousand (31 December 2016: UAH 888,261 thousand). Non-distributable reserves are represented by revaluation reserves and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

22. Commitments and contingencies

Operating environment

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 high level of dependency of world prices of raw materials, low levels of liquidity in the capital markets and the existence of restrictive currency controls which cause the national currency to be illiquid outside of Ukraine, and banking operations in Ukraine involve high risks that are not typical for developed markets.

In 2017 prices at the key commodity markets for Ukraine remained generally favourable. The growth of prices for metallurgical products and record volumes of supply of agricultural products together with continued geographical reshape of foreign trade contributed to an increase in exports of goods and services by 16%.

Rising energy prices, expansion of investment and consumer demand led to a surge in imports of goods and services by 23.3% and an increase of negative current account of the balance of payments.

At the same time, the deficit of foreign trade was offset by inflows on the financial account, and the consolidated account of the balance of payments of Ukraine in 2017 remained a surplus, which contributed to the preservation of exchange rate stability.

The effectiveness of Ukraine's cooperation with the IMF and other international financial organizations (IFO) in 2017 decreased. Only one tranche was received under the current Extended Fund Facility (EEF). As a result, in September 2017, Ukraine (for the first time since 2013) entered the international capital market with the placement of external government bonds.

A growth of domestic demand and an intensification of international trade provided a positive dynamics of the development for the most types of economic activity. Drivers of growth were construction industry (+ 26.3%) and retail trade (+ 8.8%). The negative dynamics of the results of 2017 was recorded only in agriculture (-2.7%). At the same time, the general GDP growth accelerated to 2.5%.

Increase in selling prices by producers, growth of administratively regulated tariffs together with significant increase in the minimum wage level resulted in the acceleration of inflationary dynamics. According to the State Statistics Service in 2017, consumer inflation in Ukraine grew to 13.7% (December 2017 to December 2016). As a result, the NBU was forced to move to a tighter monetary policy, which led to an increase in the discount rate to 14.5%.

22. Commitments and contingencies (continued)

Operating environment (continued)

Further recovery of the Ukrainian economy will be significantly impacted by the resolution of the conflict in the eastern part of the country, geopolitical factors, external commodity markets conditions, and the policies and decisions of the Verhovna Rada, the Government, the NBU and the Administration of the President with regard to social and economic reforms.

No changes in non-performing loans level, a high level of corporate debt and respective high risks are obstacles to recover financing of the Ukrainian economy. Thus, a surplus in liquidity available within the banking system is invested most of the time into low risk financial instruments such as government securities.

Upward growth of unemployment, low liquidity and low efficiency of Ukrainian enterprises, an increase in defaults of companies and individuals and a decline in collateral values are having a negative impact on borrowers' ability to service and repay debts due to the Bank. Upon receipt of such information, the Bank promptly revises its estimates of future cash flows and implements necessary measures to sustain the Bank's business, including the structural optimisation and cost reduction.

Legal aspects

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. 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. Management 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 transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly reduces with the passage of time. Assessment of amount and probability of negative consequences of possible unreported claims are unreasonable.

Since 1 September 2013 transfer pricing rules came into force. These rules provide that in the case of transactions with related parties and, in some cases with unrelated parties (controlled operations) that are not at market value, entities should charge additional taxes.

The Bank enters into controlled transactions solely at market prices. The Bank has implemented the necessary internal controls for compliance with the transfer pricing rules.

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	31 December 2017	*31 December 2016*
Guarantees	3,045,807	3,748,869
Undrawn loan commitments	363,462	273,651
Letters of credit	350,089	1,115,770
Avals on promissory notes	333,227	117,620
	4,092,585	5,255,910
Less – provisions (Note 15)	(6,168)	(5,137)
Financial commitments and contingencies (before deducting collateral)	4,086,417	5,250,773
Less – cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Note 17, Note 18)	(823,566)	(1,453,094)
Financial commitments and contingencies	3,262,851	3,797,679

As at 31 December 2017, the Bank issued letters of credit of UAH 331,438 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 331,438 thousand (31 December 2016: UAH 792,963 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 662,463 thousand).

As at 31 December 2017, the Bank issued guarantees of UAH 2,013,028 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 177,627 thousand (31 December 2016: UAH 2,827,304 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 164,326 thousand).

As at 31 December 2017 undrawm loan commitments for plastic cards amounted to UAH 251,449 thousand (31 December 2016: UAH 184,137 thousand).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank (capital adequacy, liquidity, credit risks). The benchmarks for such covenants are set per the terms of the agreements, other documents agreed upon by the parties of the agreements, with a reference to the international and local regulatory requirements.

These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Net commission income

Net commission income comprises:

	2017	*2016*
Commission income		
Cash and settlement service	639,601	599,419
Operations with banks	135,566	115,363
Guarantees and letters of credit	120,401	251,669
Credit servicing commission	10,333	12,329
Other	33,642	24,868
	939,543	1,003,648
Commission expense		
Cash and settlement service	(310,286)	(254,699)
Guarantees and letters of credit	(12,920)	(88,938)
Currency conversion	(4,092)	(3,013)
Other	(5,882)	(5,467)
	(333,180)	(352,117)
Net commission income	606,363	651,531

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2017	*2016*
Salaries and bonuses	804,904	640,965
Compulsory contributions to State funds	144,625	124,651
Personnel expenses	949,529	765,616
Payables to Guarantee Fund of Individuals' Deposits	218,713	222,226
Repair and maintenance expenses	105,757	104,526
Loss on fair value remeasurement for property	74,758	–
Operating taxes	44,759	104,225
Security	42,624	34,309
Loss on fair value remeasurement for investment property	39,274	160,610
Occupancy cost	34,581	34,101
Electronic and data processing costs	26,917	26,037
Rent cost	24,085	27,026
Expenses for cash collection	23,132	25,907
Household expenses	19,079	18,160
Communications	15,470	13,106
Legal and advisory services	15,316	28,244
Marketing and advertising	6,984	6,326
Business travel and related expenses	5,313	6,624
Expenses related to representative offices	3,669	4,511
Charity	3,266	1,619
Other	41,230	23,599
Other operating expenses	744,927	841,156

Expenses for payment to the non-state pension fund in 2017 comprised UAH 11,975 thousand (2016: UAH 10,145 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the Risk management process. The risk management process makes a crucial contribution in ensuring the Bank's efficiency and profitability and includes following points:

- Interest and currency risk management is performed at the Head Office level;
- Analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating, definition of risk limits for transaction amount, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty banks, separate transactions / balance sheet items, etc.);
- Risk monitoring and control and compliance with all established limits.

The risk management process includes four stages: identification of risk, its sources and risk areas; estimation of the level of risk; minimisation of risk or limitation of risk at an acceptable levels; on-going monitoring of positions at risk.

Risk management structure

The Supervisory Board is generally responsible for establishment and approval of objectives in the sphere of risk management and management of capital. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks. The following collegial authorities and structural subdivisions are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Risk-management Division, Securities Division, Treasury Division, Internal Audit Division, Assets and Liabilities Committee.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the overall responsibility for the development of the risk strategy and implementing of principles, frameworks, policies and limits within the Bank. Fundamental risk issues are managed and monitored by relevant risk decisions based on quarterly reports of the Risk-management Devesion, ALCO, Credit Committee and Retail Business Committee. The Management Board approves the Bank's risk management.

Assets and Liabilities Committee ("ALCO")

The ALCO has the overall responsibility for implementing principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified ranges approved by the Management Board. The ALCO reports to the Management Board.

Credit Committee and Retail Business Committee

The Credit Committee and Retail Business Committee have the overall responsibility for implementing principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by the Management Board. These committees report to the Management Board.

Risk-management Division

Risk-management Division is responsible for control, monitoring, analysis and reporting of risk indicators' values connected with the Bank's activities. In addition, Risk-management Devision elaborates and supervises implementation of risk management methodologies, norms and procedures, estimates the risk of all banking products and structured transactions. The Risk-management Devision reports to the Management Board.

25. Risk management (continued)

Introduction (continued)

Treasury,Securities and the ALCO Divisions

The noted above divisions are responsible for the management of the Bank's liquidity position via money market operations (Treasury Division), capital market operations (Securities Division) and also for the management of the general Bank's liquidity (the ALCO). The noted divisions report to the Management Board.

Internal Audit Division

The risk management processes are audited on a regular basis by Internal Audit Division, which examines both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to the Management Board and the Supervisory Board.

Risk measurement and risk reporting systems

The Bank's risks are measured using methods, which reflect both the expected loss under normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios reflecting the impact of extreme events with la low probability of occurrence. The Bank carries out back-testing of the models to checks their adequacy.

Risks are monitored and controlled primarily based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of 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 risks types and activities.

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by the ALCO, and covenants under contractual obligations of the Bank is submitted to the ALCO on a monthly basis. The Management Board receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

Concentration risk

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

In order to avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risks concentration is duly controlled and managed.

Credit risk

The Bank is influenced by the credit risk due to customers, clients or counterparties who failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual or group of counterparties. Such limits are subject of regular monitoring and analysis.

Credit risk management is primarily aimed at ensuring fulfilment of commitments by the Bank's customers (counterparties) in form, volume and time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

25. Risk management (continued)

Credit risk (continued)

The Credit risk management includes the following:

- Setting credit risk critical thresholds and credit risk appetite limits, concerning which, the authority limits are set;
- Providing loans or loan related commitments solely in accordance with the approved Credit policy and the Bank's internal regulations;
- Constant monitoring of the actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio; taking effective steps towards the credit risk management.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the financial (quantitative) and non-financial (qualitative) data about customer (counterparty) taking into account warning signals and the Parent Company support and also by evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or group of related counterparties), including financial commitments and contingencies; maximum volume of credit transactions (loans, securities, receivables) for one related party, including financial commitments and contingencies.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: classification on the basis of an internal system of ratings, monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 50 largest customers.

Credit-related commitment risks

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. These guarantees expose the Bank to risks similar to credit risks, and are mitigated by similar control procedures and principles.

The Bank undertakes to effect payment against presentation of complying documents under letters of credit. If the letters of credit are opened on uncovered basis the Bank has risks similar to credit risks, which are mitigated by similar control procedures and principles.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

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

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

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

Credit quality by category of financial assets

The Bank uses a rating system of calculation of probability of default (PD) for corporate borrowers, which involves the calculation of probability of default (PD) and the rating class (PD-rate) from 1 to 17 (17 grades). In the table below for loans that are neither past due nor individually impaired, high rating mean the minimum level of credit risk. Other borrowers with good financial position and quality of debt servicing are included in the standard credit rating. The below standard rating have lower credit quality compared to previous ratings, but loans are not necessarily individually impaired.

For loans that are past due or individually impaired, rating standard and below standard indicates that there is a possibility of delays in loan repayment as a result of adverse changes in commercial, financial and economic conditions. Low rating means that there is a high probability of default of loan, the borrower’s activity is poor, loss making or ceased. For the exposures of foreign credit institutions: high rating is equal to the Fitch rating BBB- and higher, standard rating is equal to lower than BBB-, but higher than CCC+, and rating below standard and lower is equal to rating CCC+ and lower.

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2017	*Notes*	*High rating*	*Standard rating*	*Below standard rating*	*Standard and below standard rating*	*Low rating*	*Total*
Cash and cash equivalents, except for cash on hand	6	18,136,626	843	300,102	–	–	18,437,571
Amounts due from foreign credit institutions	7	348,857	–	–	–	–	348,857
Amounts due from Ukrainian credit institutions	7	20	–	269,280	–	956,033	1,225,333
Investment securities:	10						
- designated at fair value through profit or loss		28,072,289	–	–	–	–	28,072,289
- available-for-sale		46,698,684	1,556,027	–	–	–	48,254,711
- held-to-maturity		96,022	–	–	–	–	96,022
Loans to corporate customers	9						
Commercial loans		30,626,937	11,234,768	4,333,012	28,142,357	40,707,591	115,044,665
Overdrafts		228,290	405,531	39,410	36,374	–	709,605
Finance lease receivables		–	–	–	–	67,299	67,299
Promissory notes		51,115	1,499	–	–	–	52,614
Total		124,258,840	13,198,668	4,941,804	28,178,731	41,730,923	212,308,966

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2016	*Notes*	*High rating*	*Standard rating*	*Below standard rating*	*Standard and below standard rating*	*Low rating*	*Total*
Cash and cash equivalents, except for cash on hand	6	20,158,564	–	–	–	–	20,158,564
Amounts due from foreign credit institutions	7	683,609	–	–	–	–	683,609
Amounts due from Ukrainian credit institutions	7	20	–	758,692	–	948,020	1,706,732
Investment securities:	10						
- designated at fair value through profit or loss		24,064,110	–	–	–	–	24,064,110
- available-for-sale		46,163,120	2,030,429	–	–	–	48,193,549
- held-to-maturity		139,098	–	–	–	–	139,098
Loans to corporate customers	9						
Commercial loans		9,140,186	21,315,677	7,530,453	25,347,557	40,069,325	103,403,198
Overdrafts		86,577	205,730	31,863	132,036	–	456,206
Finance lease receivables		82,378	–	7,151	–	5,135	94,664
Promissory notes		57,098	9,172	–	–	–	66,270
Total		100,574,760	23,561,008	8,328,159	25,479,593	41,022,480	198,966,000

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. 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 ageing analysis of past due but not impaired loans is provided below:

At 31 December 2017	*Less than 30 days*	*From 31 to 60 days*	*From 61 to to 90 days*	*Total*
Loans to customers				
Loans to corporate customers	701,667	15,348	364	717,379
Loans to individuals	25,260	9,776	15,330	50,366
Total	726,927	25,124	15,694	767,745

At 31 December 2016	*Less than 30 days*	*From 31 to 60 days*	*From 61 to to 90 days*	*Total*
Loans to customers				
Loans to corporate customers	11,913	275	1,843	14,031
Loans to individuals	11,071	9,289	1,562	21,922
Total	22,984	9,564	3,405	35,953

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

The table below presents the value of collateral taken by the Bank when assessing the impairment of assets, in the amount not exceeding the carrying amount of the loan.

	31 December 2017	*31 December 2016*
Loans to corporate customers	48,538,002	46,252,053
Loans to individuals	241,008	202,266
Total	48,779,010	46,454,319

Impairment assessment

The main considerations for the loan impairment assessment is based on a determination whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances (on a portfolio basis).

Geographical concentration

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	31 December 2017			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	9,394,326	10,222,931	248,960	19,866,217
Due from credit institutions	350,882	278,670	70,187	699,739
Loans to customers	67,607,544	–	–	67,607,544
Investment securities:				
- designated at fair value through profit or loss	28,072,289	–	–	28,072,289
- available-for-sale	48,254,711	–	–	48,254,711
- held-to-maturity	96,022	–	–	96,022
Other financial assets	398,307	2,357	94	400,758
	154,174,081	10,503,958	319,241	164,997,280
Liabilities				
Amounts due to credit institutions	1,911,599	21,371,452	736	23,283,787
Amounts due to customers	89,086,171	413,245	1,002,084	90,501,500
Eurobonds issued	–	38,821,831	–	38,821,831
Subordinated debt	–	3,615,792	–	3,615,792
Other financial liabilities	45,082	4,242	19	49,343
	91,042,852	64,226,562	1,002,839	156,272,253
Net position	63,131,229	(53,722,604)	(683,598)	8,725,027
Commitments and contingencies (Note 22)	3,259,457	3,394	–	3,262,851

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Geographical concentration (continued)

	31 December 2016			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	10,609,012	10,643,182	126,323	21,378,517
Due from credit institutions	867,369	639,620	37,487	1,544,476
Loans to customers	58,469,531	–	–	58,469,531
Investment securities:				
- designated at fair value through profit or loss	24,064,110	–	–	24,064,110
- available-for-sale	48,193,549	–	–	48,193,549
- held-to-maturity	139,098	–	–	139,098
Other financial assets	353,292	2,266	157	355,715
	142,695,961	11,285,068	163,967	154,144,996
Liabilities				
Amounts due to credit institutions	2,661,866	25,268,696	826	27,931,388
Amounts due to customers	84,673,369	425,818	689,765	85,788,952
Eurobonds issued	–	37,562,345	–	37,562,345
Subordinated debt	–	3,495,895	–	3,495,895
Other financial liabilities	29,071	17,434	348	46,853
	87,364,306	66,770,188	690,939	154,825,433
Net position	55,331,655	(55,485,120)	(526,972)	(680,437)
Commitments and contingencies (Note 22)	3,793,111	4,568	–	3,797,679

Liquidity risk

The liquidity risk is the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

The liquidity risk management is performed:

- Either on the long-term basis that is focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- Or on the short-term basis that is focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management includes determination of acceptable levels of maturity gaps (by currency) and also:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- Permanent monitoring of actual key liquidity risk indicators;
- Use of adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Liquidity risk (continued)

The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU.

	31 December 2017, %	*31 December 2016, %*
N4 “Instant Liquidity Ratio” (cash in hand, balances on nostro accounts with banks and unpledged deposit certificates of the National Bank of Ukraine / balances on customers’ current accounts) (minimum required by the NBU – 20%)	67.85	45.25
N5 “Current Liquidity Ratio” (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers’ current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	139.08	180.29
N6 “Short-Term Liquidity Ratio” (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers’ current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 60%)	146.07	154.82

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank’s financial liabilities based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

Financial liabilities At 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to the NBU	2,424	–	–	–	2,424
Amounts due to credit institutions	2,870,442	3,822,341	11,123,796	11,297,365	29,113,944
Amounts due to customers	75,390,099	15,095,359	641,979	107,148	91,234,585
Eurobonds issued	820,966	2,852,408	40,618,000	6,042,044	50,333,418
Subordinated debt	148,269	149,055	3,911,103	304,723	4,513,150
Other liabilities	49,343	–	–	–	49,343
Commitments and contingent financial liabilities	1,457,600	1,699,256	824,524	111,204	4,092,584
Total undiscounted financial liabilities	80,739,143	23,618,419	57,119,402	17,862,484	179,339,448

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities At 31 December 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to the NBU	659	–	–	–	659
Amounts due to credit institutions	3,700,861	6,183,234	12,548,953	11,751,119	34,184,167
Amounts due to customers	72,226,352	13,178,342	634,774	90,241	86,129,709
Eurobonds issued	795,333	2,776,891	38,437,040	10,330,032	52,339,296
Subordinated debt	138,685	139,447	3,418,973	919,911	4,617,016
Other liabilities	46,853	–	–	–	46,853
Commitments and contingent financial liabilities	1,023,020	2,576,608	1,628,885	27,397	5,255,910
Total undiscounted financial liabilities	77,931,763	24,854,522	56,668,625	23,118,700	182,573,610

The above table shows the timing of expiry dates of commitments and contingent financial liabilities of the Bank according to the respective agreements. The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key interest rate risk indicators;
- Permanent monitoring of actual values of key interest rate risk indicators;
- Taking efficient measures if the actual values of key interest rate risk indicators approach their critical and/or threshold levels.

The sensitivity of the consolidated statement of profit and loss (consolidated income statement) reflects the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at reporting date.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Interest rate risk (continued)

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit and loss (consolidated income statement).

			31 December 2017		
Currency	*Base for interest rate*	*Increase in basis points*	*Effect on profit before income tax expense*	*Decrease in basis points*	*Effect on profit before income tax expense*
UAH	NBU	+100	–	-100	–
USD	LIBOR	+75	(113,265)	-75	113,265
EUR	LIBOR	+75	–	-75	–
EUR	Euribor	+25	(84)	-25	84
Other	LIBOR	+75	137	-75	(137)
Other	Euribor	+25	–	-25	–
Total			(113,212)		113,212

			31 December 2016		
Currency	*Base for interest rate*	*Increase in basis points*	*Effect on profit before income tax expense*	*Decrease in basis points*	*Effect on profit before income tax expense*
UAH	NBU	+100	2,426	-100	(2,426)
USD	LIBOR	+75	(110,104)	-75	110,160
EUR	LIBOR	+75	–	-75	–
EUR	Euribor	+75	(1,961)	-75	1,863
Other	LIBOR	+75	457	-75	(457)
Other	Euribor	+75	3	-75	(3)
Total			(109,179)		109,137

The equity sensitivity is calculated by the revaluation of available-for-sale financial assets with fixed rate as at 31 December to assess the possible effects of the assumed changes in interest rates. For securities classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used, for securities classified at the 3 level of the hierarchy – a method of yield curve, with the following assumptions: +/-400 b.p. for corporate bonds, +/-200 b.p. for Ukrainian state bonds denominated in local currency, +/-100 b.p. for Ukrainian state bonds in USD, +/-20% interest rate change for corporate bonds of the 3 level of hierarchy. As at 31 December 2017, the total effect of the changes on the Bank's equity is: UAH (1,427,464) thousand / UAH 1,427,464 thousand (2016: UAH (902,490) thousand / UAH 902,490 thousand).

Sensitivity of net profit/(loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit/(loss) as of 31 December in terms of effects of the assumed changes in interest rates using the method of modified duration. The effect of changes in interest rate of +/-100 b.p. for Ukrainian state bonds on the Bank's income is UAH (1,090,306) thousand / UAH 1,090,306 thousand (2016: UAH (983,675) thousand / UAH 983,675 thousand).

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Currency risk (continued)

Currency risk management is aimed at securing an excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- Setting targets (optimal and acceptable to the Bank), critical (undesired but manageable) and threshold (urgent measures) values of key currency risk indicators;
- Continuous monitoring of actual values of key currency risk indicators;
- Taking efficient measures if the actual values of key currency risk indicators approach their critical and/or threshold values.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Hryvnia, with all other variables held constant on the consolidated statement of profit and loss (consolidated income statement) (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss (consolidated income statement) or equity, while a positive amount reflects a net potential increase.

	31 December 2017		*31 December 2016*	
Currency	*Change in currency rate, %*	*Effect on profit before tax*	*Change in currency rate, %*	*Effect on profit before tax*
UAH/USD	+16.00%	(586,391)	+40.00%	(3,731,917)
UAH/EUR	+21.00%	(67,813)	+40.00%	(250,085)
Total		(654,204)		(3,982,002)
UAH/USD	-16.00%	1,351,862	-30.00%	5,998,692
UAH/EUR	-21.00%	67,813	-30.00%	187,564
Total		1,419,675		6,186,256

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities

Levels of the fair value hierarchy

For the purposes of disclosing the information about fair value, the Bank classifies the assets and liabilities based on the nature, characteristics and risks of an asset or liability and the levels of the fair value hierarchy as shown below (at carrying value):

	31 December 2017				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31.12.2017	–	72,891	–	72,891
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31.12.2017	–	28,072,289	–	28,072,289
Available-for-sale investment securities:					
Ukrainian state bonds	31.12.2017	–	46,698,684	–	46,698,684
Corporate bonds	31.12.2017		1,540,930	–	1,540,930
Corporate shares	31.12.2017	–	–	15,097	15,097
Investment property	01.12.2017	–	–	1,260,398	1,260,398
Buildings	01.12.2017	–	–	1,435,699	1,435,699
Liabilities measured at fair value					
Due to customers in precious metals	31.12.2017	–	118,311	–	118,311
Assets for which fair value is disclosed					
Cash and cash equivalents	31.12.2017	6,811,780	13,054,437	–	19,866,217
Amounts due from credit institutions	31.12.2017	–	626,848	–	626,848
Loans to customers	31.12.2017	–	–	68,155,555	68,155,555
Securities held to maturity	31.12.2017	–	93,598	–	93,598
Other assets	31.12.2017	–	400,758	–	400,758
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31.12.2017	–	23,283,787	–	23,283,787
Amounts due to customers	31.12.2017	–	90,386,165	–	90,386,165
Eurobonds issued	31.12.2017	42,375,611	–	–	42,375,611
Subordinated debt	31.12.2017	3,677,193	–	–	3,677,193
Other liabilities	31.12.2017	–	49,343	–	49,343

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

	31 December 2016				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31.12.2016	–	121,567	–	121,567
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31.12.2016	–	24,064,110	–	24,064,110
Available-for-sale investment securities:					
Ukrainian state bonds	31.12.2016	–	46,163,120	–	46,163,120
Corporate bonds	31.12.2016	–	2,018,739	–	2,018,739
Corporate shares	31.12.2016	–	–	11,690	11,690
Investment property	31.12.2016	–	–	1,344,074	1,344,074
Buildings	31.12.2014	–	–	1,815,850	1,815,850
Liabilities measured at fair value					
Due to customers in precious metals	31.12.2016	–	166,367	–	166,367
Assets for which fair value is disclosed					
Cash and cash equivalents	31.12.2016	6,592,738	14,785,779	–	21,378,517
Amounts due from credit institutions	31.12.2016	–	1,422,909	–	1,422,909
Loans to customers	31.12.2016	–	–	58,414,201	58,414,201
Securities held to maturity	31.12.2016	–	142,295	–	142,295
Other assets	31.12.2016	–	355,715	–	355,715
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31.12.2016	–	27,931,388	–	27,931,388
Amounts due to customers	31.12.2016	–	85,592,252	–	85,592,252
Eurobonds issued	31.12.2016	37,014,419	–	–	37,014,419
Subordinated debt	31.12.2016	2,961,457	–	–	2,961,457
Other liabilities	31.12.2016	–	46,853	–	46,853

Investment securities designated at fair value through profit or loss and available-for-sale investment securities

Valuation technique used for investment securities available for sale (excluding shares) measurements is linked to market prices of similar financial instruments quoted on active market.

Investment securities available for sale designated at fair value through profit or loss are valued using a valuation model, which assumptions confirmed by observable data (exchange rate, volatility, interest rates).

Investment securities available for sale which are valued using a valuation technique or pricing models primarily consist of shares. These securities are valued using models utilising data which is based on the non-observable inputs. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee and its risk profile.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

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

	31 December 2017			*31 December 2016*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	19,866,217	19,866,217	–	21,378,517	21,378,517	–
Amounts due from credit institutions	626,848	626,848	–	1,422,909	1,422,909	–
Loans to customers	67,607,544	68,155,687	548,143	58,469,531	58,414,201	(55,330)
Securities held to maturity	96,022	93,598	(2,424)	139,098	142,295	3,197
Other assets	400,758	400,758	–	355,715	355,715	–
Financial liabilities						
Amounts due to credit institutions	23,283,787	23,283,787	–	27,931,388	27,931,388	–
Amounts due to customers	90,383,189	90,386,165	(2,976)	85,622,585	85,592,252	30,333
Eurobonds issued	38,821,831	42,375,611	(3,553,780)	37,562,345	37,014,419	547,926
Subordinated debt	3,615,792	3,677,193	(61,401)	3,495,895	2,961,457	534,438
Other liabilities	49,343	49,343	–	46,853	46,853	–
Total unrecognized change in unrealized fair value			(3,072,438)			1,060,564

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which is recorded at fair value:

	1 January 2017	*Total gain/(loss) recorded in consolidated statement of profit and loss (consolidated income statement)*	*Total loss recorded in consolidated statement of total income*	*Purchases*	*Settlements*	*31 December 2017*
Available-for-sale investment securities	11,690	3,519[a]	–	–	(112)[b]	15,097
Investment property	1,344,074	(38,121)[c]	–	8,199[d]	(53,754)[e]	1,260,398
Buildings	1,815,850	(105,660)[f]	(271,333)	3,400[g]	(6,558)[h]	1,435,699
Total assets	3,171,614	(140,262)	(271,333)	11,599	(60,424)	2,711,194

	1 January 2016	*Total gain/(loss) recorded in consolidated statement of profit and loss (consolidated income statement)*	*Purchases*	*Settlements*	*31 December 2016*
Available-for-sale investment securities	11,690	24[a]	–	(24)[b]	11,690
Investment property	1,566,942	(157,694)[c]	12,306[d]	(77,480)[e]	1,344,074
Buildings	1,845,255	(31,277)[f]	1,872[g]	–	1,815,850
Total assets	3,423,887	(188,947)	14,178	(77,504)	3,171,614

(a) UAH 3,519 thousand included in "Other income" (2016: UAH 24 thousand included in "Other income"), UAH 3,413 thousand included in "Interest income from investment securities other than designated at fair value through profit or loss", and UAH 106 thousand of loss is included in losses from available-for-sale investment securities "Losses on impairment").

(b) UAH 112 thousand of settlements comprise: UAH 106 thousand of repayments and UAH 6 thousand from sales (2016: UAH 24 thousand of settlements comprise: UAH 24 thousand of repayments).

(c) Loss from revaluation of investment property in the amount of UAH 39,274 thousand is included in other operating expenses, gain from sale of investment property of UAH 1,153 thousand is included in other income (2016: loss from revaluation of investment property in the amount of UAH 160,610 thousand is included in other operating expenses, gain from sale of investment property of UAH 2,916 thousand is included in other income).

(d) UAH 8,199 thousand of purchases comprise: UAH 1,620 thousand of investment property purchases and UAH 6,579 thousand of of own property transfer to investment property (purchases of investment property in amount of UAH 12,306 thousand).

(e) UAH 53,754 thousand of settlements comprise: UAH 13,709 thousand of selling and UAH 40,045 thousand of transfer to the own property (2016: settlements in amount of UAH 77,480 thousand comprise: UAH 77,467 thousand of selling and UAH 13 thousand transfer to the own property).

(f) Loss in amount of UAH 105,660 thousand comprise: UAH 30,902 thousand loss within the "Amortisation and depreciation" account and UAH 74,758 thousand of own property revaluation within the "Other operating expenses" account (2016: expenses in amount of UAH 31,277 thousand within the "Amortisation and depreciation").

(g) UAH 3,400 thousand of purchases comprise: UAH 132 thousand of purchases and UAH 3,268 thousand of capital investments transfer to own property (2016: UAH 1,872 thousand purchases comprise: UAH 56 thousand of purchases and UAH 1,816 thousand of capital investment transfer to own property).

(h) Purchases in 2017 in the amount of UAH 6,558 thousand include UAH 6,558 thousand of of transfer to ibvestment property (2016: UAH 0).

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value (continued)

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2017		
	Realised gains	*Unrealised losses*	*Total*
Investment securities available for sale	106	3,413	3,519
Investment property	1,153	(39,274)	(38,121)
Buildings	–	(105,660)	(105,660)
Total	1,259	(141,521)	(140,262)

	2016		
	Realised gains	*Unrealised losses*	*Total*
Investment securities available for sale	24	–	24
Investment property	2,916	(160,610)	(157,694)
Buildings	–	(31,277)	(31,277)
Total	2,940	(191,887)	(188,947)

The tables below shows the quantitative information as at 31 December 2017 and 31 December 2016 about significant unobservable inputs used for the fair valuation of assets classified as those of the 3 level of the fair value hierarchy:

At 31 December 2017	*Carrying value*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Available-for-sale investment securities	15,097	Discounted cash flows	Expected profitability	–
			Risk factor	Corporate: 0-1.0
Investment property:				
- *real estate*	520,298	Comparative, income method	Sqm	UAH 1 thousand – UAH 39 thousand
- *land*	740,100	Comparative	Are	UAH 1 thousand – UAH 2,414 thousand
Buildings:				
- *real estate*	1,432,359	Comparative	Sqm	UAH 1 thousand – UAH 31 thousand
- *land*	3,340	Comparative	Are	UAH 110 thousand – UAH 286 thousand

At 31 December 2016	*Carrying value*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Available-for-sale investment securities	11,690	Discounted cash flows	Expected profitability	Corporate: 13.50%-32.00%
			Risk factor	Corporate: 0-1.0
Investment property:				
- *real estate*	565,960	Comparative, income method	Sqm	UAH 1 thousand – UAH 39 thousand
- *land*	778,114	Comparative	Are	UAH 3 thousand – UAH 3,027 thousand
Buildings:				
- *real estate*	1,814,212	Comparative	Sqm	UAH 1 thousand – UAH 34 thousand
- *land*	1,638	Comparative	Are	UAH 56 thousand – UAH 194 thousand

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 for the Bank's contractual undiscounted repayment obligations.

	31 December 2017			*31 December 2016*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	19,866,217	–	19,866,217	21,378,517	–	21,378,517
Due from credit institutions	674,958	24,781	699,739	810,785	733,691	1,544,476
Loans to customers	41,899,861	25,707,683	67,607,544	36,136,670	22,332,861	58,469,531
Investment securities:						
- designated at fair value through profit or loss	416,294	27,655,995	28,072,289	323,477	23,740,633	24,064,110
- available-for-sale	32,505,608	15,749,103	48,254,711	21,807,627	26,385,922	48,193,549
- held-to-maturity	4,048	91,974	96,022	6,032	133,066	139,098
Tax assets	–	122,321	122,321	101,677	–	101,677
Investment property	–	1,260,398	1,260,398	–	1,344,074	1,344,074
Property and equipment	–	1,641,014	1,641,014	–	2,120,672	2,120,672
Intangible assets	–	49,505	49,505	–	26,778	26,778
Deferred income tax asset	–	2,138,292	2,138,292	–	2,322,000	2,322,000
Other assets	809,921	–	809,921	697,747	–	697,747
Total	96,176,907	74,441,066	170,617,973	81,262,532	79,139,697	160,402,229
Liabilities						
Amounts due to credit institutions	3,011,021	20,272,766	23,283,787	5,959,861	21,971,527	27,931,388
Amounts due to customers	89,951,019	550,481	90,501,500	85,101,559	687,393	85,788,952
Eurobonds issued	1,132,329	37,689,502	38,821,831	1,097,973	36,464,372	37,562,345
Subordinated debt	120,550	3,495,242	3,615,792	113,350	3,382,545	3,495,895
Provisions for other losses	6,168	–	6,168	5,137	–	5,137
Other liabilities	324,948	–	324,948	258,246	–	258,246
Total	94,546,035	62,007,991	156,554,026	92,536,126	62,505,837	155,041,963
Net amount	1,630,872	12,433,075	14,063,947	(11,273,594)	16,633,860	5,360,266

The maturity analysis does not reflect the historical stability of current accounts. In the table above current accounts are reflected in the Amount due to customers in "Within one year" maturity bucket. It should be noted that historically substantial portion of funds have remained on the current accounts for periods longer than one year.

The category Amounts due to customers includes term deposits of individuals in accordance with their contractual maturity dates. In accordance with Ukrainian legislation, the Bank is obliged to repay time deposit to individuals on their request only on maturity date prescribed in the deposit agreement. Early repayment of time deposit on customer request is prohibited and could be done only in the cases and under conditions stipulated by such agreement. The Bank expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

28. Presentation of financial instruments by measurement category

Assets by measurement categories as at 31 December 2017:

	Loans and receivables	*Assets available for sale*	*Assets at fair value through profit or loss*	*Assets held to maturity*	*Total*
Cash and cash equivalents	19,866,217	–	–	–	19,866,217
Due from credit institutions	626,848	–	72,891	–	699,739
Loans to customers	67,607,544	–	–	–	67,607,544
Investment securities:					
- designated at fair value through profit or loss	–	–	28,072,289	–	28,072,289
- available-for-sale	–	48,254,711	–	–	48,254,711
- held-to-maturity	–	–	–	96,022	96,022
Other financial assets	400,758	–	–	–	400,758
Total	88,501,367	48,254,711	28,145,180	96,022	164,997,280

Assets by measurement categories as at 31 December 2016:

	Loans and receivables	*Assets available for sale*	*Assets at fair value through profit or loss*	*Assets held to maturity*	*Total*
Cash and cash equivalents	21,378,517	–	–	–	21,378,517
Due from credit institutions	1,422,909	–	121,567	–	1,544,476
Loans to customers	58,469,531	–	–	–	58,469,531
Investment securities:					
- designated at fair value through profit or loss	–	–	24,064,110	–	24,064,110
- available-for-sale	–	48,193,549	–	–	48,193,549
- held-to-maturity	–	–	–	139,098	139,098
Other financial assets	355,715	–	–	–	355,715
Total	81,626,672	48,193,549	24,185,677	139,098	154,144,996

As at 31 December 2017 and 31 December 2016, all financial liabilities of the Bank were carried at amortized cost, except for deposits in gold, which belong to the fair value through profit or loss measurement category.

29. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not. The terms and conditions of such transactions may differ from those between unrelated parties.

Transactions and balances with related parties comprise transactions with Ukrainian government-related entities (both directly and indirectly controlled by and under significant influence of the Government) and key management personnel.

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Related party disclosures (continued)

The outstanding balances of key management personnel as at 31 December 2017 and 2016, and related income and expense for the years ended 31 December 2017 and 2016, are as follows:

	31 December 2017	*31 December 2016*
	Key management personnel	*Key management personnel*
Loans to customers	18	401
Less: allowance for impairment	(2)	(269)
Loans to customers, net	16	132
Current accounts	5,560	4,399
Time deposits	9,134	5,511
Amounts due to customers	14,694	9,910
Other liabilities	12	7

	2017	*2016*
	Key management personnel	*Key management personnel*
Interest income on loans	27	81
Interest expense on customers’ deposits	(852)	(245)
Commission income	16	3
Translation differences	(241)	(1,768)

The aggregate remuneration and other benefits paid to key management personnel for the year ended 31 December 2017 is UAH 29,913 thousand (UAH 301 thousand payment to non-state pension fund) (for the year ended 31 December 2016: UAH 19,473 thousand (UAH 280 thousand payment to non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of the Ukraine and entities controlled or significantly influenced by it. The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, operation with securities, cash and settlement transaction.

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2017 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State enteties	–	–	3,546,848	–	–
Client 2	State enteties	–	–	1,191,285	–	–
Client 3	Agriculture and food industry	–	–	26,893,949	–	–
Client 4	Extractive industry	–	16,863,172	–	–	–
Client 5	Extractive industry	–	769,062	–	–	–
Client 6	Finance	7,936,394	–	–	–	–
Client 7	Finance	–	–	–	442,939	–
Client 8	Power engineering	–	5,520,516	–		–
Client 9	Mechanical engineering	–	2,531,403	–	–	210,247
Client 10	Trade	–	–	1,328,284	–	650,402
Client 11	Trade	–	–	–	–	724,156
Other		–	–	8,765,303	–	–

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Related party disclosures (continued)

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2016 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Amounts due to credit institutions*	*Guarantees issued*
Client 2	State enteties	–	–	1,820,863	–	–	–
Client 1	State enteties	–	–	1,514,166	–	–	–
Client 3	Agriculture and food industry	–	–	27,358,937	–	–	–
Client 4	Extractive industry	–	10,581,585	–	–	–	–
Client 5	Extractive industry	–	1,173,526	–	–	–	–
Client 6	Finance	5,372,785	–	–	659	–	–
Client 12	Finance	–	–	–	–	364,134	–
Client 10	Trade	–	–	1,644,607	–		1,357,720
Client 11	Trade	–	–	–	–	–	847,445
Client 8	Power engineering	–	3,452,694	–	–	–	–
Client 9	Mechanical engineering	–	2,290,686	–	–	–	311,872
Other		–	–	7,376,726	–	–	–

For the year ended 31 December 2017, the Bank recorded UAH 2,275,983 thousand of interest income within the essential operations with government-related entities (for the year ended 31 December 2016: UAH 2,496,386 thousand), including interest income from operations with the NBU deposit certificates with maturity up to 90 days – UAH 180,682 thousand of interest income (2016: UAH 399,002 thousand) and UAH 1,778,541 thousand of interest expenses (for the twelve months period ended 31 December 2016: UAH 2,141,161 thousand) from significant transactions with the government-related entities.

As at 31 December 2017 and 2016, the Bank’s investments in debt securities issued by the government or the government-related corporate entities were as follows:

	31 December 2017	*31 December 2016*
Available-for-sale investment securities	48,253,645	48,192,169
Investment securities designed at fair value through profit or loss	28,072,289	24,064,110
Investment securities held to maturity	96,022	139,098

Carrying value of government bonds, which are included in investment securities designated at fair value through profit or loss and investment securities available for sale is disclosed in Note 10.

For the year ended 31 December 2017, the Bank recorded UAH 4,827,725 thousand of interest income (2016: UAH 4,346,780 thousand) from transactions with government bonds, and UAH 313,358 thousand of interest income from transactions with other investment securities (2016: UAH 440,458 thousand).

30. Capital adequacy

The Bank pro-actively manages its exposures to ensure it that it maintains an adequate capital level to cover external risks inherent in the business. The adequacy of the Bank’s capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

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 proper capital ratios in order to support its business activities and maximise the value to the shareholder.

(thousands of Ukrainian hryvnia, unless otherwise stated)

30. Capital adequacy (continued)

The Bank manages its capital structure and adjusts its total assets to provide for observed and expected changes in the business environment and the risk profile of its business activities.

NBU capital adequacy ratio

In 2015, the NBU performed diagnostic study of 20 largest banks of Ukraine, including the Bank. Separate requirements for the capital adequacy ratio were applied for the banks that took part in diagnostic study of the NBU. These requirements are approved by the NBU based on the results of diagnostic studies and remediation plans, but in any case, upon the approval, the ratio shall not be: lower than 5% staring 1 February 2016, and reach 7% as at 1 January 2018 and 10% as at 1 January 2019.

During 2017 and as at 31 December 2017 the Bank complied with these requirements.

As at 31 December the Bank’s regulatory capital adequacy ratio on this basis was as follows:

	31 December 2017	*31 December 2016*
Main capital	6,217,716	3,908,734
Additional capital, calculated	4,141,885	4,589,478
Additional capital included in the calculation of total capital (limited to main capital)	4,141,885	3,908,734
Total capital	10,359,601	7,817,468
Risk weighted assets	74,469,796	79,030,619
Capital adequacy ratio	13.91%	9.89%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses and Tier 2 capital (Additional capital), consisting of revaluation reserve, current year profit, subordinated debt and retained earnings. For Regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank’s capital adequacy ratios, computed in accordance with the Basel Capital Accord 1988 were as follows:

	31 December 2017	*31 December 2016*
Tier 1 capital	13,145,892	4,634,931
Tier 2 capital, calculated	4,426,458	3,042,801
Tier 2 capital included in the calculation of total capital	4,426,458	3,042,801
Total capital	17,572,350	7,677,732
Risk weighted assets	80,802,113	79,994,257
Tier 1 capital ratio	16.3%	5.8%
Total capital ratio	21.7%	9.6%

31. Subsequent events

In March 2018, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 4,051,000 thousand with a fixed coupon rate of 16.5% p.a. and maturity in March 2021.