PJSC “BANK CREDIT DNEPR”
Financial statements

As at and for the year ended December 31, 2017
Together with Independent Auditor’s Report
Translated from Ukrainian original

Translation from Ukrainian original

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

The following statement, which should be considered together with the description of independent auditor's responsibilities contained in the attached Independent auditor's report, is made with a view to distinguishing the respective responsibilities of management and the independent auditor's one with respect to financial statements of Public Joint-Stock Company "Bank Credit Dnepr" (hereinafter - the Bank).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2017, the results of its operations, cash flows, and changes in equity for the year ended December 31, 2017, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Using reasonable assumptions and estimates;
- Complying with requirements of IFRS and explaining all significant departures from IFRS in the financial statements;
- Preparing the financial statements on a going concern basis except is inappropriate.

Management is also responsible for:

- Designing, implementing, and maintaining an effective and secure system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting of fraud and other irregularities.

The Financial statements for the year ended December 31, 2017 was authorized for issue and signed by and on behalf of the Board:

Financial Director — Sergiy Volkov

Chief Accountant — Ruslan Chudakivskyi

April 27, 2018

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TRANSLATED FROM UKRAINIAN ORIGINAL

INDEPENDENT AUDITORS REPORT

To shareholders and the Board of PUBLIC JOINT STOCK COMPANY "BANK CREDIT DNEPR"

Opinion

We have audited the financial statements of PUBLIC JOINT STOCK COMPANY "BANK CREDIT DNEPR" (hereinafter - Bank), which comprise:

- Statement of financial position as at December 31, 2017;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, Statement of cash flows (direct method) for the year then ended December 31 2017; and
- Description of significant accounting policies and other notes to the financial statements.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) (edition of 2015) approved as national audit standards by the decision of the Chamber of Auditors of Ukraine No 344 dated May 4, 2017. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

These financial statements are prepared based on an assumption that the Bank is able to continue as a going concern. As mentioned in the section Assumptions as a Going Concern of Note 6 Key judgements and estimates disclosures together with other circumstances, factors described in Note 2 Operating environment continued to influence financial position and results of the Bank's activities. Without modifying our opinion in respect of this matter, we draw attention to the factors, which brought about comprehensive loss, negative cash flow from operating activities, failure to comply with certain banking regulations, negative liquidity gaps (as stated in Note 6) and can influence an operating activities of the Bank and its ability to continue as a going concern in the future without proper support of shareholder of the Bank. An assessment of the Bank's management regarding these issues is also disclosed in the Note 6 to these financial statements. The financial statements do not have the adjustments, necessary for resolution of this uncertainty.

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. In addition to the matter described in the chapter Material Uncertainty Related to Going Concern we decided that the below matters are the key audit matters, which should be reflected in our report.

The key audit matter	**How the matter was addressed in our audit**
Provisions to cover losses from impairment of loans and advances to customers, other banks (UAH 2 504 014 thousand) *See notes 6, 8 and 9*	
We focused on this issue as the key audit matter due to materiality of amounts on loans and advances to customers, amounts due from other banks and subjective nature of judgements applied for calculation of impairment. Provisions to cover losses from impairment reflect the management's estimate of incurred losses from portfolios of loans and advances to customers as of the reporting date. The provisions are calculated on a collective basis for loans with similar features and on an individual basis for material loans. Calculation of provisions on collective and individual basis requires application of judgements. Provisions on a collective basis are calculated using statistic models. Input data for these models is based on previous experience of losses, statistical information and is subject to judgement of management to make assumptions on impairment of assets and calculation of provisions. Calculation of individual provisions stipulates requirement to determine when the loss event happened and to assess expected future cash flows related to this loan.	Our procedures included: • We tested internal control system introduced by the management for calculation of provisions to cover losses from impairment of loans and advances to customers both on an individual and collective basis. • We assessed independently appropriateness of modeling policies and methodology used for material loan portfolios against accounting standards and market practices, while model calculations were checked by repeated calculation. • We also assessed independently appropriateness of management's judgements on applied methodology of calculation and segmentation. • We also assessed independently appropriateness of methodology on individual provisions for sample of loans selected across the portfolio on a risk basis. Independent assessment on level of provisions was conducted on a basis of detailed information about loan and credit file of counteragent. We re-evaluated calculations of discounted cash flows on sample of counteragents.
Assessment of fair value of investment property (UAH 1 335 439mln) *See notes 13 and 4.15*	
We focused on this issue as the key audit matter due to materiality of amounts of investment property and dependence of reflected value on assessments. The Bank evaluates investment property at fair value based on internal evaluation procedure with engagement of independent evaluation experts according to IFRS 40. The Bank conducts evaluation of investment property not less than once a year.	Our procedures included: • Testing internal control system introduced by management. • Checking accordance of reflected value of investment property to reports of independent evaluation experts. • Analyzing quality and objectivity of reports of independent evaluation experts on a sample basis, appropriateness application of chosen methods. • Checking correctness of revaluation results in accounting.

Other matters

The management bears responsibility for other information. Other information includes Annual information of issuer of securities for 2017, which is not a financial statement, and our auditor opinion. We expect that Annual information of issuer of securities for 2017 will be provided to us after the date of the auditor's opinion.

Our opinion on financial statement does not apply to other information and we provide opinion with any level of confidence regarding to other information.

Our responsibility related to our audit of financial statement is to review other information mentioned above, when provided and to consider if any material discrepancy exists between other information and financial statement or our knowledge obtained during the audit or this information seems to contain material distortion.

Responsibilities of Management and Supervisory Board for the Financial Statements

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

In preparing the financial statements, the 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board, 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 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.

Partner of the audit, resulting in this opinion of independent auditor is Gagik Nersesyan

Managing Partner — Alexander Pochkun

Auditor — Gagik Nersesyan

Banking audit license #0171 issued by the Audit Chamber of Ukraine on 22.12.2011.

April 27, 2018
Kyiv, Ukraine

Registration # 18-080.3

(Thousands of Ukrainian hryvnias, unless otherwise stated)
Translated from Ukrainian original

STATEMENT OF FINANCIAL POSITION

As at December 31

(Thousands of Ukrainian hryvnias)

	Note	*2017*	*2016*
Assets			
Cash and cash equivalents	7	1 433 969	786 849
Amounts due from banks	8	486 854	141 951
Loans and advances to customers	9	4 118 982	4 001 636
Securities available-for-sale	10	279 874	441
Deposit certificates of the NBU to maturity		1 001 196	1 000 656
Investment property	11	1 335 439	1 276 502
Current income tax assets		-	5 554
Other financial assets	12	5 930	36 630
Other assets	12	87 735	27 958
Property, plant and equipment and intangible assets	13	232 260	215 157
Deferred income tax assets	14	263 099	262 885
Non-current assets held-for-sale	15	40 827	114 979
Total assets		**9 286 165**	**7 871 198**
Liabilities			
Amounts due to banks		46	45
Amounts due to customers	16	8 336 560	7 442 286
Debt securities issued	17	9 993	136 354
Subordinated debt	20	1 330	327
Other financial liabilities	18	84 958	62 459
Other liabilities	18	34 997	40 838
Total liabilities		**8 467 884**	**7 682 309**
Equity	19		
Share capital		1 544 666	1 544 666
Unregistered contribution to share capital		1 199 000	-
Additional paid-in capital		17 678	17 678
Accumulated loss		(2 041 113)	(1 471 148)
Revaluation reserve		98 050	97 693
Total equity		**818 281**	**188 889**
Total equity and liabilities		**9 286 165**	**7 871 198**

Authorized for release and signed

April 27 2018

Financial Director Sergiy Volkov

Chief Accountant Ruslan Chudakivskyi

Notes on pages 6 - 59 are an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31

(Thousands of Ukrainian hryvnias)

	Notes	*2017*	*2016*
Interest income	21	**723 879**	**543 731**
Loans to customers		634 975	501 015
Securities		86 791	40 305
Amounts due from banks		2 113	2 411
Interest expenses	21	**(582 728)**	**(757 146)**
Amounts due to customers		(575 770)	(698 649)
Amounts due to banks		(6 958)	(13 511)
Debt securities issued		-	(44 921)
Subordinated debt			(65)
Net interest income		**141 151**	**(213 415)**
Fee and commission income		179 069	149 447
Fee and commission expenses		(67 280)	(58 477)
Net fee and commission income	22	**111 789**	**90 970**
Result from operations with securities in the trading portfolio		113	1 531
Result from operation with derivative		29 621	119 844
Net gains from dealing in foreign currencies		78 919	79 278
Foreign exchange translation result		19 289	(29 298)
Gains less losses on revaluation of investment property	11	(61 084)	356 107
Recovery of / (Charge to) provision for impairment of loans and advances to customers and amounts due from banks	8, 9	(359 050)	(646 198)
Recovery of / (Charge to) provision for impairment of securities	10	(74)	-
Recovery of / (Charge to) provision for impairment of other financial and non-financial assets	12	(49 786)	(27 742)
Recovery of / (Charge to) provision for liabilities	20	(1 763)	872
Other income	23	18 807	13 358
Administrative and other operating expenses	24	(498 272)	(419 624)
Profit/ (Loss) before income tax expense		**(570 340)**	**(674 317)**
Income tax benefit	14	103	117 727
Net profit/ (Loss) for the year		**(570 237)**	**(556 590)**

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

For the year ended December 31

(Thousands of Ukrainian hryvnias)

	Notes	*2017*	*2016*
Other comprehensive income:			
Items non-recognizable as profit and loss:			
Property, plants and equipment revaluation		-	1 246
Transfer of property, plant and equipment revaluation		(272)	-
Other comprehensive income non-recognizable as profit and loss after tax		**(272)**	**1 246**
Items, which may be recognizable in future as profit or loss:			
Revaluation of available for sale securities		767	-
Income tax related to comprehensive income		(138)	-
Items, which may be recognizable in future as profit or loss after tax:		**629**	**-**
Total comprehensive income/ (loss) for the year		**(569 880)**	**(555 344)**
Profit/ (Loss) per share			
Net basic profit / (loss) (expressed in UAH per share)	25	(0.37)	(0.45)

Authorized for release and signed

April 27, 2018

Financial Director Sergiy Volkov

Chief Accountant Ruslan Chudakivskyi

Notes on pages 6 - 59 are an integral part of these financial statements

STATEMENT OF CASH FLOWS (direct method)

For the year ended December 31

(Thousands of Ukrainian hryvnias)

	Notes	*2017*	*2016*
Cash flows from operating activities			
Interest received		394 279	446 135
Interest paid		(611 862)	(735 289)
Fee and commission income received		179 279	132 443
Fee and commission expenses paid		(66 996)	(58 442)
Result from operations with securities in the trading portfolio		113	1 531
Result from operation with derivative financial instruments		32 920	142 984
Income received from trading in foreign currencies		78 919	24 237
Other operating expenses received		16 372	12 734
Use of impairment allowance		(773)	
Administrative and other operating expenses, paid		(463 947)	(394 329)
Cash flows used in operating activities before changes in operating assets and liabilities		**(441 696)**	**(427 996)**
Net (increase)/ decrease in operating assets and liabilities			
Amounts due from banks		(306 654)	23 809
Loans and advances to customers		(182 956)	168 920
Other financial assets		(1 865)	742 804
Other assets		(13 124)	(7 253)
Non-current assets held for sale	15	3 290	15 317
Amounts due to banks		(1)	(357 000)
Amounts due to customers		727 061	734 867
Debt securities issued		(123 020)	(32 226)
Other financial liabilities		8 147	41 604
Other liabilities		(4 125)	8 096
Net cash flows from operating activities		**(334 943)**	**910 942**
Cash flows from investing activities			
Purchase of securities available-for-sale		(269 651)	-
Capital investments to investment property	11	(84)	(45)
Purchase of property, equipment		(27 521)	(8 327)
Proceeds from sale of property, equipment		8	-
Purchase of property, equipment and intangible assets		(7 496)	(5 511)
Net cash from/ (used in) investing activities		**(304 744)**	**(13 883)**
Cash flows from financing activities			
Additional issue of shares	19	-	686 000
Unregistered contribution to share capital	19	1 199 000	-
Repayment of subordinated debt		-	(724 437)
Net cash from/ (used in) financing activities		**1 199 000**	**(38 437)**
Effect of NBU exchange rates changes on cash and cash equivalents		87 797	5 200
Net increase/ (decrease) in cash and cash equivalents		**647 110**	**863 822**
Cash and cash equivalents at the beginning of the year	7	**1 786 849**	**923 027**
Cash and cash equivalents at the end of the year	7	**2 433 959**	**1 786 849**

Authorized for release and signed

April 27, 2018

Financial Director Sergiy Volkov

Chief Accountant Ruslan Chudakivskyi

Notes on pages 6 - 59 are an integral part of these financial statements

1. General information

Public Joint Stock Company "BANK CREDIT DNEPR" (the "Bank") was established on July 7, 1993 according to the decision of the General Meeting of Shareholders of the Bank and in accordance with the laws of Ukraine. The change in the legal name and organizational form of the Bank from a closed joint-stock company to a public joint-stock company was officially registered on July 16, 2009. The Bank operates under the general banking license No 70 renewed by the National bank of Ukraine ("NBU") on October 13, 2011, which allows the Bank to conduct banking operations, including foreign currency transactions. The Bank also has licenses for securities operations and custody services from the National Commission for Securities and Stock Market of Ukraine, which were renewed on October 17, 2012 for an unlimited period.

The Bank accepts deposits from individuals and grants loans, transfers payments across Ukraine and abroad, exchanges foreign currencies and provides banking services to its corporate customers and individuals. The Bank also develops programs to support small and medium businesses, expanding the list of services for business customers who conduct foreign economic activity.

Legal address of the Bank and its head office location is 3 Mechnikova st., Pecherskiy dstr., Kyiv, Ukraine 01601. Country of residence is Ukraine. The Bank took decision to change the legal address to 32 Zhylanska st., Shevchenkivskiy district, Kyiv, Ukraine 01033. The Bank is preparing package of required documents for registration of respective changes to the statute by the National Bank of Ukraine.

As at December 31, 2017, the Bank has 42 offices all over Ukraine (2016: 42 offices).

As at December 31, 2017 and 2016 100% of the Bank's shares were owned by Brancroft Enterprises Limited (hereinafter - the Shareholder), a company incorporated in a non-OECD country. In 2015, the Bank has adapted the ownership structure in accordance with the new requirements of the National Bank of Ukraine "On providing information on the ownership structure", which became effective on May 21, 2015. Upon receiving the approval from the NBU, 100% indirect participation in the bank transferred to the company Paramigiani Management Limited, 99% of which directly and 1% indirectly are owned by Mr. Viktor Pinchuk. As at December 31, 2017, the owner of 100% indirect significant holding in the Bank is Mr. Viktor Pinchuk.

These financial statements were authorized for issue and signed by and on behalf of the Board on April 27, 2018.

2. Operating environment

Despite the fact that the Ukrainian economy deemed to be of market status, it continues to display certain characteristics consistent with that of an growing economy The further prospects of development will depend on efficiency of reforms implemented in the country, economic policy of the government and positive changes in legal, tax and political spheres.

The economy demonstrates currently modest recovery, volume of international reserves grew by 21% year over year to USD 18.81bn in 2017. Receipt of financing from IMF and other lenders, including placement of Eurobonds, and net purchase of foreign currency on interbank market contributed to growth of international reserves.

In the first half of the year NBU decreased reference rate from 14% to 12.5%, which supported decline of bank deposit rates. However the actual inflation exceeded the forecasted level due to hike in prices of raw food products, increase in production costs and revival of consumer demand. The Board of National Bank decided to increase its reference rate to 13.5% in October and then to 14.5% in December aiming to bring inflation to target level.

The National Bank will resume to soften monetary policy if inflation risks demonstrate sustainable decline and expectations improve, which is possible only at implementation of structural reforms and reasonable fiscal policy.

Economic growth remains low. Continued military conflict in Donbass was accompanied by suspension of trade relations with the uncontrolled territories. These events have negative impact on enterprises of energy sector and steel industry through drop in output and decrease of export potential.

The key risk remain to be possibility of escalation of conflict in the East of Ukraine. Besides possible suspension of cooperation with IMF will have adverse influence on Ukraine's ability to serve foreign debt and respectively will deteriorate exchange rate of national currency.

As of December 31, 2017, the Bank had loans and advances to customers associated with the Autonomous Republic of Crimea, in the amount of UAH 193 462 thousand. The above amount includes loans secured by assets located in the territory of the Crimea and loans issued to the borrowers in these areas.

As of December 31, 2017 the Bank had loans and advances to customers associated with the territories not controlled by the government of Ukraine in Donetsk and Lugansk regions, amounting to UAH 1 089 585 thousand.

The Bank considered known and measurable risk factors as of the date of these financial statements in assessing the impairment of such loans.

In case of further exacerbation of relations between Ukraine and the Russian Federation the Bank may suffer losses due to the difficulties in recovering assets located in the Autonomous Republic of Crimea and territories uncontrolled by the government of Ukraine in Donetsk and Luhansk regions or due to non-payment of indebtedness on loans from borrowers registered in the Autonomous Republic of Crimea and the uncontrolled territories. The negative effect of such events on the financial position and performance of the Bank cannot be currently determined.

In 2017, political and economic relations of Ukraine and Russian Federation remain strained. As at December 31, 2016, certain loans were provided to the Bank's borrowers – producers with exports sales to the Russian Federation too. The Bank considered known and measurable risk factors as of the date of these financial statements in assessing the impairment of such loans. Further exacerbation of the political and economic relations between Ukraine and the Russian Federation, establishing restrictions on exports of Ukrainian companies to Russian Federation, can significantly affect the ability of such borrowers to service their loans. The negative effects of such events on the financial position and performance of the Bank cannot be currently determined.

Stabilization of the Ukrainian economy in the near future will depend on the success of actions taken by the government, and continuous financial support of Ukraine by international donors and international financial institutions, as well as the ability of the Ukrainian economy as a whole to respond adequately to the market changes.

Bank's development strategy includes the following objectives: increase the volume of lending to households, small and medium businesses with a particular focus on the agribusiness sector; increase of trade and commission revenue; improving the quality of Internet banking and further development of online technologies.

The Bank took into account known and evaluated results of the above events impacting financial position and results of the Bank in the report period. Management believes that it takes adequate measures to maintain the stable activity of the Bank required under the circumstances, although further instability in the business environment may cause a negative impact on results of operations and financial condition, the nature and consequences of which currently cannot be determined. These financial statements reflect management's current assessment regarding the impact of business environment in Ukraine on operations and financial condition of the Bank. The future business environment may differ from management's assessments.

3. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements are prepared under the historical cost convention except for buildings and investment property stated at revalued amount, available-for-sale securities and derivative financial instruments stated at fair value, as well as assets held-for-sale stated at the lower of cost and fair value less cost to sell.

Going concern

These financial statements have been prepared on the assumption that the Bank operates as a going concern and will remain active for the foreseeable future. Note 6 discloses the main factors considered by the management when assessing the Bank's ability to continue its activities.

Functional and presentation currency

The functional currency for these financial statements is Ukrainian hryvnia. These financial statements are presented in thousands of Ukrainian hryvnias ("the thousands of UAH") unless otherwise is indicated.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until December 31, 2000. Accordingly, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items of the financial statements were restated to the measuring units current at December 31, 2000 by applying the consumer price indices, and that these restated values were used as a basis for accounting in the subsequent accounting periods.

Impact of hyperinflation is given below:

	Before impact of hyperinflation at December 31, 2017	***Impact of hyperinflation***	***After impact of hyperinflation at December 31, 2017.***
Equity:			
Share capital	1 521 000	23 666	1 544 666
Accumulated loss	(2 017 447)	(23 666)	(2 041 113)

4. Summary of accounting policies

Changes in accounting policies

The following new standards and interpretations became effective and mandatory for the use by the Bank beginning from January 1, 2017 or after. The Bank do not use in advance standards clarifications or amendments that have been issued but not effective yet.

The nature of the impact of these changes is below. While some standards and amendments applied for the first time in 2017, they had no material impact on the annual financial statements. The nature and impact of every new standard or amendment are disclosed below:

Amendments to IAS 7 «Statement of cash flows» - «Disclosure initiative»
Amendments demand disclosure of changes in liabilities stemming from financial activities. Such changes should be disclosed in necessary volume: (i) changes of cash flows from financing; (ii) changes related with purchase or disposal of subsidiaries; (iii) impact in changes of exchange rates; (iv) changes in fair value ; i (v) other changes. The above amendments did not impacted disclosure of information in this financial statement.

Amendments to IAS 12 «Income tax» - «Recognition of deferred tax assets with regard to unrealized loss»
Amendments demand to take into account possible limitations of tax legislation to sources of taxable income, non-deductible at reversal of temporary differences related to unrealized losses. Besides amendments clarify calculation of future taxable income and specify circumstances, when possible future taxable income may include compensation of value on some assets in the amount not exceeding their balance values.

The Bank applied the above mentioned amendments, but they did not impact the financial position and results.

Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to hryvnias at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognized in Net gains/(losses) from foreign currencies in the profit or loss. Non-monetary assets and liabilities denominated in foreign currencies are translated to hryvnias at the foreign exchange rate prevailing at the date of the transaction.

The principal UAH exchange rates used in the preparation of these financial statements as at 31 December are as follows:

Currency	***2017***	***2016***
US Dollar	28.067223	27.190858
Euro	33.495424	28.422604
Russian Ruble	0.48703	0.45113

Financial instruments

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability held for the purpose of repurchase or disposal in the near future, derivatives and instruments, intended for that category after initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the management intends to sell immediately or in the near term, those that the management upon initial recognition designates as at fair value through profit or loss, As well as assets designated as available for sale

Securities available-for-sale are non-derivative securities designated as available for sale or are not classified as loans and receivables, held-to-maturity assets or financial instruments at fair value through profit or loss.

Financial assets held-to-maturity are non-derivative financial assets with fixed payments and fixed maturity, which are held to maturity.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavorable.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party in a contract on purchase of a financial instrument. All regular purchases and sales of financial assets/liabilities are accounted as of the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value and, if it is not a financial asset or liability at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of such financial asset or liability.

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

- loans and receivables that are measured at amortized cost using the effective interest method;

- investments into the equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses.

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

The amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are revaluated at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is recognized in the statement of profit or loss and other comprehensive income as administrative and other operating expenses. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest income/expense within the statement of profit or loss and other comprehensive income using the effective interest method.

Offsetting

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

During 2017, the Bank did not offset assets and liabilities.

Reclassification of financial assets

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

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;

- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

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

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

Cash and cash equivalents

Cash and cash equivalents are assets which can be convertible to known amounts of cash at short notice and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances on correspondent accounts with the National Bank of Ukraine and all interbank deposits with original repayment period of up to three months. Restricted funds for more than three months after their placement and funds with evidence of impairment are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Fees and cash flows presented in the statement of cash flows, are transfers of cash and cash equivalents by the Bank, including amounts of accrued or placed current accounts of the Bank’s counterparties as interest income on a loan or principal amount of debt recovered by debiting the funds from the client’s current account, payments on interests or granted loans, credited to the current account of the client, representing cash and cash equivalents from the client’s point of view.

Amounts due from banks, loans and advances to customers

“Amounts due from banks” and “Loans and advances to customers” are non-derivative financial assets with fixed or determinable payments, which do not have quotes in an active market. The Bank recognizes amounts due from banks along with loans and advances to customers at the date of settlement at fair value, taking into account transaction costs. After initial recognition these assets are measured at amortized cost using the effective interest rate net of impairment losses. Depreciation is disclosed in the income statement under the item “Interest income”, and the depreciation expense is “Recovery of / (Charge to) to provision for impairment of loans and advances to customers and amounts due from banks”.

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 banks, amounts due to customers, debt securities issued and subordinated debt. Borrowings are initially recognized at fair value. Any gains or losses on initial recognition of loans received from the Shareholder are recognized as additional paid-in capital in equity (upon repayment of these loans the said additional paid-in capital is transferred to the accumulated deficit). After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the borrowings are derecognized as well as through the amortization process.

Fair value measurement principles

The fair value of financial instruments is based on their market quotations at the reporting date without deduction for transaction costs. If market quotations are not available as at the reporting date, the fair value of an instrument is estimated using appropriate valuation models. The models may contain modeling based on net present value, comparison with similar instruments for which prices exist on the observable market, options pricing models and other valuation methods.

At discounted cash flow method, estimated future cash flows are based on the management's best estimates using a discount rate representing a market rate at the reporting date for an instrument with similar terms and conditions. At use of pricing models, inputs are based on market related measures at the reporting date. If there are no appropriate methods to determine the fair value of the equity instruments for which a quoted market price is not available, these instruments are carried at historical cost less the impairment allowance.

In addition, during the preparation of the financial statements fair value measurements are classified by levels based on observable data and their materiality for the assessment:

- I Level inputs: quotations (unadjusted) on active markets on identical assets or liabilities;
- II Level inputs: observable data for an asset or liability, directly or indirectly;
- III Level inputs: non-observable inputs for an asset or liability.

Gains and losses on subsequent measurement

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

- a gain or loss on the financial instrument at fair value with recognition of revaluation in profit or loss is recognized in profit or loss on such items as the result of transactions in securities in the trading portfolio, from derivative instruments with foreign currency. Interest income or expense is recognized using the effective interest rate, and dividend income is recognized under the item "Other income", after establishing the right to receive payment.

- a gain or loss from securities available-for-sale is recognized directly in other comprehensive income (except for interest income, impairment losses and gains and losses from translation differences) until the asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized as other comprehensive income is recognized in profit or loss. Interest in relation to financial asset available-for-sale is recognized as earned in the profit or loss as "Interest income" and is calculated using the method of effective interest rate;

- a gain or loss on financial assets and liabilities carried at amortized cost is recognized in profit or loss in the course of amortization, impairment of the asset or when the financial asset or liability is derecognized. Interest income on impaired financial assets is recognized on the basis of interest rate used to discount future cash flows to assess loss from impairment.

Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized from the statement of financial position 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.

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

Financial liabilities

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

At replacement of an existing financial liability by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, original liability is derecognized and a new liability is recognized, and the difference in the respective carrying amounts is recognized in profit or loss.

Derivative financial instruments

Derivative financial instruments include foreign exchange swaps, forward transactions and any combinations of these instruments.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently revaluated at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in the statement of profit or loss.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Loans to customers

The management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and individual or collective impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

The Bank assesses individually loans based on the total amount of the Borrower's debt to the Bank, the number of calendar days of outstanding principal and interest, the fact of the restructuring, and if the decision was made of the authorized body of the Bank to classify loans as high risk ones and their appropriate transfer to Non-performing assets Department.

Amount of allowance for impairment of loans to customers is estimated by deduction of discounted value of expected future cash flows excluding future losses not yet incurred and amounts of expected reimbursement from collateral adjusted using weighting discounts that take into account the type of collateral and terms of its disposal from gross exposure of the borrower. The gross exposure of the borrower includes outstanding principal loan amount, accrued interest income as at the date of the statement of financial position, unamortized discount/premium as at the date of the statement of financial position, etc. Discounted value of expected future cash flows from the loan is calculated through discounting the expected future cash flows at the original effective interest rate. Or, where it is impossible to calculate, it is determined by the level of debt under the current conditions of the loan agreement, adjusted by the probability of default and discounted using the original nominal rate. When estimation of the allowance for impairment of loans is based on assessment of expected cash flows from disposal of collateral and/or for calculation of expected reimbursement from collateral adjusted using weighting discounts, the Bank uses the collateral related to any of the following categories only:

- term deposits placed with the Bank;
- residential mortgage;
- non-residential mortgage;
- land plots;
- property complexes;
- cars and other motor vehicles;
- equipment, goods in circulation or processing;
- biological assets.

The Bank applies decreasing discounts to fair value of collateral depending on credit rank of the borrower and type of the collateral. Those discounts reflect time and efforts required to dispose of the respective type of collateral.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If in a subsequent year amount of estimated impairment losses increases or decreases due to event occurred after impairment losses have been recognized, amount of previously recognized impairment losses increases or decreases by means of allowance account adjustment. If amount written-off is subsequently recovered, then recovered amount is recognized in the profit or loss as "Reversal/ (Charges to) the provision for impairment of loans and due from other banks". Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank.

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, high probability that they will enter bankruptcy or other financial reorganization as well as evidence based on observable data which indicate that there is a measurable decrease in the estimated reimbursement, such as changes in arrears or economic conditions that correlate with defaults.

Factors, taken into consideration when assessing whether objective evidence of impairment exists for loans assessed individually, may include the following:

- any overdue principal and/or interest amounts;
- indications that the borrower or group of borrowers is in financial difficulties supported by their financial information;
- the borrower's ability to sustain the performance results even if there are financial difficulties;
- evidence that the borrower's or group's industry, geographic region or other relevant economic area is, or may be exposed in the foreseeable future to adverse changes that may result in significant changes in future cash flows;
- evidence of that the borrower may enter bankruptcy or financial reorganization;
- evidence of adverse changes in international, national or local business environment that affects the borrower's cash flows;
- other observable data providing evidence of decrease in the cash flows.

Factors taken into consideration when assessing probability of collection of collectively assessed loans include historical data on default probability and indirect losses, taking into account the data on overdue loans in similar portfolios. Credit risk ratios for groups of financial assets with similar characteristics of credit risk are determined in accordance with the internal methodology of probability of default rates calculation, that is based on the history of changes in quality of debt servicing by borrowers based on the number of days past due of the debt principal and/or accrued interest income. The amount of allowance for impairment is assessed using other historical data and taking into account the current economic conditions.

In some cases, the observable data, required to estimate the amount of an impairment loss on a loan, may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience taking into consideration gained experience in determination of losses from lending activities.

Loan restructuring

Where possible, the Bank seeks to restructure loans rather than to enforce the collateral as well as for the purpose of time and material costs optimization on the collateral agreement roll-over when prolongation of the loan agreement is executed. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position;

- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the approach similar to derecognition of financial liabilities.
- If the loan restructuring is caused by the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of future cash flows with regard to new terms discounted using the original effective interest rate and the carrying amount before restructuring in the profit or loss as "Interest income".

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

Financial assets available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that an financial asset or a group of financial assets is impaired.

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

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

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements (direct "repo") are retained in the statement of financial position 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 banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties on direct "repo" deal terms are retained in the statement of financial position. Securities borrowed on reverse "repo" deal terms are not recorded in the financial statements, unless these are sold to third parties. The obligation to return them is recorded at fair value as liability on trading operations.

Property, plant and equipment, intangible assets and investment property

Following initial recognition at cost, buildings are carried at a revalued amount, representing fair value at the revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Bank believes that the revaluation model is more relevant to account for the buildings as revalued cost of buildings owned by the Bank reflects their current value more precisely as opposed to historical value.

To determine the fair value of buildings the management obtains appraisals from independent professionally qualified appraisers. Revaluations of buildings are made with sufficient regularity such that carrying amount does not differ materially from that which would be determined using fair value at the revaluation date.

The accumulated depreciation as at the revaluation date is eliminated with simultaneous decrease in gross carrying value of the asset and the net amount is restated based on revalued amount. A revaluation surplus on buildings is recognized in other comprehensive income, except to the extent that it reverses a previous revaluation decrease, recognized in the profit or loss. Decrease in buildings value due to revaluation is recognized in the profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the buildings revaluation reserve. On the retirement or disposal of the asset, the remaining buildings revaluation reserve is immediately transferred to the retained earnings.

Other property, plant and equipment and intangible assets are carried at cost less accumulated amortization and impairment losses. The carrying amount of equipment is assessed for impairment in case of events occurrence or changes in circumstances evidencing on probable inability to recover carrying value of the asset. At the end of each reporting date, the Bank assesses whether there is any indication of impairment of equipment and intangible assets. If any such indication exists, the Banks estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the profit or loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Costs of minor repairs and maintenance are expensed when incurred. Expenditures for capital repairs and cost of replacing major parts or components of property, plant and equipment are capitalized and further depreciated over the useful lives.

Property, plant and equipment used by the Bank either to earn rental income or for capital appreciation or for both are carried as investment property at fair value. Changes in the fair value of investment properties are included in the profit or loss as Gains less losses on revaluation of investment property.

Depreciation and amortization

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation and amortization commences from the date when the acquired assets becomes ready for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

Buildings	50 years
Furniture and equipment	5 years
Computers	3 years
Vehicles	5 years

Costs on capital leasehold improvements are recognized as assets and charged to the profit or loss as "Administrative and other operating expenses" within depreciation of property, plant and equipment and amortization of intangible assets on a straight-line basis over the shorter of the applicable lease or the economic life of the leasehold improvement.

Intangible assets are amortized over the useful lives till 10 years.

Non-current assets held-for-sale

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

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

The Bank measures an asset (or disposal group) classified as held-for-sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss as in other charges to allowances for impairment if events or changes in circumstance indicate that carrying amount of the asset (or disposal group) may be impaired.

Leases

Financial lease – Bank as a lessor

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

Operational lease – 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 recognized as expenses on a straight-line basis over the lease term and included into the profit or loss as "Administrative and other operating expenses" within expenses for operating lease (rent).

Operational lease – Bank as a lessor

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

Provisions

Provisions are recognized 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.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in the statement of financial position as "Other liabilities", being the premium received. Commission received is recognized in the profit or loss on a straight-line basis during the financial guarantee agreement term. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Increase in liability relating to financial guarantee agreements is recognized in the profit or loss.

Income and expense recognition

Interest and similar income and expenses

For all financial instruments measured at amortized cost and interest bearing securities classified as 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 carrying 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 recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a 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 earned 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 recognized 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 recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

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

Share capital

Ordinary shares are recorded as share capital. Costs of services of third parties directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

The book value of the share capital takes into account the influence of hyperinflation accumulated before 2001.

Taxation

The income tax for the year comprises current and deferred tax. The income tax is recognized in the profit or loss as Income tax (benefit)/expenses except to the extent that it relates to items of other comprehensive income, or to items of the statement of changes in equity, in which case it is recognized respectively in other comprehensive income or in the statement of changes in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current income tax expenses are calculated in accordance with the legislation of Ukraine.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is calculated depending on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates to be effective in the periods of possible realization of temporary differences between tax and financial accounting.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Ukraine also has various operating taxes that are assessed on the Bank activities. These taxes are included in other operating expenses.

Employee benefits

There is the State pension system in Ukraine. Under the system rules the Bank and its employees execute obligatory payments calculated based on income received by the employees. The Bank recognizes amounts paid to that system in the statement of profit or loss and other comprehensive income as part of administrative and other operating expenses as personnel costs. The Bank does not have any additional pension schemes and does not provide significant post-retirement benefits to its employees.

Precious metals

Gold and other precious metals are recorded at the NBU exchange rates, which approximate fair values. Changes in the NBU bid prices are recorded as translation differences on transactions with precious metals in the profit or loss as net gains/(losses) arising from foreign currencies.

Contingent assets and liabilities

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless retirement due to their redemption is unlikely. A contingent asset is not recognized in the statement of financial position but is disclosed in the financial statements when an inflow of economic benefits is probable.

5. New Standards and interpretations issued but not year effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 and which the Bank has not adopted earlier. The Bank didn't applied these standards and interpretations before they become mandatory.

IFRS 9 Financial Instruments: Classification and Measurement (released in July 2014 and is effective for annual periods beginning on or after January 1, 2018). Below are the main features of the new standard:

IFRS 9 combines three parts of the financial instruments accounting framework: classification and measurement, impairment and hedge accounting. Except for hedge accounting, the standard is applied retrospectively, but the disclosure of comparative information is not mandatory. Requirements for hedge accounting are mainly applied prospectively, with some limited exceptions.

(a) IFRS 9 establishes a new approach to the classification of financial assets due to the characteristics of cash flows and the business model of the organization.

- A financial asset is classified for further measurement in the category of instruments measured at amortized cost if: (i) the cash flows provided by the agreement represent exclusively the repayment of the principal and interest; (ii) the assets are held within the business model, the purpose of which is to maintain the contractual cash flows;

- A financial asset is classified for further measurement in a category of instruments at fair value through profit or loss if: (i) the cash flows provided by the agreement must represent exclusively the repayment of the principal and interest; (ii) assets are held within a business model that involves managing assets for the purpose of both obtaining cash flows provided by the agreement and selling these assets;

- Financial assets that do not qualify for further measurement at amortized cost or at fair value through profit or loss, are classified in the category of instruments that are subsequently measured at fair value through profit or loss.

- Financial liabilities are classified for further valuation as those measured at amortized cost, except for financial liabilities for trading (including derivatives) - are measured at fair value with the recognition of a revaluation through profit or loss.

(b) IFRS 9 requires to reflect all 12-month expected loss or expected credit loss for all maturities of all debt securities, loans and receivables to be reflected. The Bank expects that these changes will have no significant impact on equity with regard to current structure of loan portfolio with moderate sensitivity to macroeconomic factors, while part of portfolio with high sensitivity is hedged by collateral. Unsecured loans and receivables have high level of credit risk provision diminishing risks of unexpected negative impact on equity.

(c) IFRS 9 provides for a new model of general hedging accounting principles that converges hedging accounting with risk management objectives. The new model does not provide for fundamental changes in the types of hedging relationships or requirements for the assessment and recognition of ineffectiveness of hedging in accordance with IFRS 39, but in the new model, a greater number of hedging strategies used for risk management will meet the criteria for applying hedge accounting.

The Bank plans to apply IFRS 9 since its validity date (January 1, 2018) and will not restate comparative information. During 2017 the Bank conducted detailed appraisal of impact from all three parts of standard, based on currently available information, but it can be updated, if the Bank receives additional grounded confirming information available in 2018 after introduction of IFRS 9 in general.

(a) Classification and evaluation

The Bank does not expect material impact on statement of profit or loss and changes in equity from application of requirements on classification and evaluation of IFRS 9.

Cash and cash equivalents, due from banks, loans and advances to customers, deposit certificates of National Bank of Ukraine held to maturity, other financial assets: the Bank conducted analysis of cash flow features provided by the agreement and came to conclusion, that these features match criteria for evaluation at amortized value and do not require reclassification.

Securities available for sale (debt securities): the Bank conducted analysis of cash flow features provided by an agreement and came to conclusion, that these features match criteria for evaluation at amortized value or fair value with recognition of revaluation in other comprehensive income. The Bank plans to continue evaluating the above instruments at fair value with recognition of revaluation in other comprehensive income, and plans to retain cash flows provided by an agreement and cash flow from sales of these instruments.

Securities available for sale (financial investments with floating income): The Bank plans to use opportunity representing changes in fair value from the above investments in other comprehensive income. In the previous periods the Bank recognized loss from impairment of such investments in profit and loss. The recognized amount of provision will not have material impact on financial positions and equity after introduction of standard requirements to classification and evaluation of financial assets.

Other assets (as part of receivables): IFRS 9 requirements to classification and evaluation are not applied, except for requirement of impairment evaluation.

(б) Impairment

The Bank will evaluate credit risk on due from banks, loans and advances to customers, deposit certificates of National Bank of Ukraine held to maturity, other financial assets to determine evaluation provision in the amount of 12 month credit loss or loss at full maturity. The Bank will applied simplified method to evaluation of credit risk on other assets (as part of receivables). The Bank determined that loss evaluation allowance will increase by UAH 21 994 thousand, while deferred tax assets will increase by UAH 3 959 thousand and fair value of financial investment with floating income (recognized previously at cost) will depreciate by UAH 105 thousand.

(в) Hedging accounting

The Bank does not conduct hedging accounting.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

(r) Impact of IFRS 9

on financial position

	Notes	*31.12.2017*	*01.01.2018*
Assets			
Cash and cash equivalent	7	1 433 969	1 433 969
Impairment allowance		-	(1 832)
Total cash and cash equivalent		**1 433 969**	**1 432 137**
Amounts due from banks	8	488 968	488 968
Impairment allowance		(2 114)	(2 114)
Total amounts due from banks		**486 854**	**486 854**
Loans and advances to customers	9	6 620 882	6 620 882
Impairment allowance		(2 501 900)	(2 522 062)
Total loans and advances to customers		**4 118 982**	**4 098 820**
Investments to securities:	10		
Securities at fair value accounted at fair value through other comprehensive income	10	279 488	279 488
Securities at fair value determined at fair value through other comprehensive income	10	491	386
Securities accounted at amortized value		1 001 196	1 001 196
Impairment allowance	10	(105)	-
Total investments to securities		**1 281 070**	**1 281 070**
Investment property	**11**	**1 335 439**	**1 335 439**
Other financial assets	12	91 996	91 996
Impairment allowance		(86 066)	(86 066)
Total other financial assets		**5 930**	**5 930**
Other assets	12	103 984	103 984
Impairment allowance		(16 249)	(16 249)
Total other assets		**87 735**	**87 735**
Property, plant and equipment and intangible assets	**12**	**232 260**	**232 260**
Deferred tax assets	**14**	**263 099**	**267 058**
Intangible assets available for sale	**15**	**40 827**	**40 827**
Total assets		**9 286 165**	**9 268 130**
Liabilities			
Amounts due to banks		46	46
Amounts due to customers	16	8 336 560	8 336 560
Debt securities issued	17	9 993	9 993
Provisions for liabilities		1 330	1 330
Other financial liabilities	18	84 958	84 958
Other liabilities	18	34 997	34 997
Total liabilities		**8 467 884**	**8 467 884**
Equity	19		
Share capital		1 544 666	1 544 666
Unregistered contribution to share capital		1 199 000	1 199 000
Additional paid-in capital		17 678	17 678
Accumulated loss		(2 041 113)	(2 059 062)
Revaluation reserve		98 050	97 964
Total equity		**818 281**	**800 246**
Total equity and liabilities		**9 286 165**	**9 268 130**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Impact on capital

Equity as of 31.12.2017	**818 281**
Adjustment of impairment allowance for cash and cash equivalents	(1 832)
Adjustment of impairment allowance for loans and advances to customers	(20 162)
Adjustment of impairment allowance for securities	105
Adjustment of fair value of security investments	(105)
Adjustment of deferred tax asset	3 959
Equity as of 01.01.2018	**800 246**

IFRS 15 Revenue from Purchase Agreements (issued 28 May 2014 and effective for periods beginning on or after January 1, 2018). The new standard will replace all existing requirements of IFRS to recognition of revenue: IAS 11 Construction contracts, IAS 18 Income, IFRIC 13 Loyalty programs to customers, IFRIC 15 Agreements of real estate construction, IFRIC 18 Transfer of assets from customers, SIC 31 Income: barter transactions on advertisement services. The standard is applied to all agreements except for: lease agreements under IAS 17 Lease, insurance contracts under IAS Insurance contracts, financial instruments under IFRS 9 Financial instruments, IFRS 10 Consolidated financial statement, IFRS 11 Joint venture, IAS 27 Standalone financial statement and IAS 28 Investments to associates and joint ventures.

The standard includes a five-step model that will be applied to revenues from contracts with buyers. According to IFRS 15, revenue is recognized in the amount of reimbursement the right to which the organization expects to receive in exchange for the transfer of goods or services to the buyer.

The Standard applies to new agreements concluded since January 1, 2018 and agreements in process of implementation as of the date IFRS 15 becomes effective. The standard requires the full retrospective application or modified retrospective application for annual periods starting since January 1, 2018 or after this date. Modified approach provides recognition of cumulative effect of the first application of this IFRS as adjustment of incoming value of undistributed earnings as of January 1, 2018.

The Bank evaluated effect from application of IFRS 15: (1) requirements of this standard do not apply on material part of the Bank's income – interest income, result from FX transactions, derivatives and securities, result from revaluation of intangible assets, rent income etc.; (2) the standard impacts recognition of income from sale of intangible assets – as of January 1, 2018 all agreements of the bank on disposal of intangible assets are completed; (3) other income within the standard in line with IFRS 15.

IFRS 15 contains more detailed disclosure requirements than existing IFRSs. The requirements for filing make significant changes to existing practices and significantly increase the amount of information required to be disclosed in the financial statements of the Bank. Many of the disclosure requirements in IFRS 15 are completely new. The Bank will disclose implementation status of agreements with buyers as contractual asset or contractual liability depending on status of transaction and contractual payments. The Bank will additionally disclose detailed information on agreements (for example, geographic region, market, buyer class etc.) , on reconciliation of amounts as of beginning and end of the period, applied judgements and other information according to the standard's requirements.

IFRS 16 Lease Agreements (issued in January 2016 and effective for annual periods beginning on or after January 1 2019). The standard supersedes IAS 17, KTMFZ 4, PKT-15, PKT-27. IFRS 16 sets out the principles for recognizing, assessing, presenting and disclosing lease information, and requires tenants to record all lease agreements using a single accounting model in the balance sheet, similar to the accounting treatment that is provided for in IFRS 17 for finance leases. The standard provides for two exemptions from recognition for tenants - regarding the lease of assets with low value and short-term lease (with a maturity of no more than 12 months). At the beginning of the lease, the lessee will recognize obligations relating to lease payments (lease obligations), as well as an asset representing the right to use the underlying asset during the lease term (asset in the form of the right of use). Even operating lease costs will be replaced by interest expense on liability and even costs of depreciation of the asset, which will reflect higher costs at the beginning of the lease term and lower ones at the end of the lease.

IFRS 16 may be applied in full (i) retrospectively; or (ii) without recalculation of information for the comparative period, with the recognition of the total effect of the initial application of the standard as an adjustment to the input balance of retained earnings at the date of initial application. If option (ii) is applied, the lessee should estimate the obligation based on the rate of attraction of additional borrowed funds, determined on the date of the first application. An asset in the form of a right of use may be measured in the amount equal to the lease obligation or at the carrying amount of the asset, calculated retrospectively using the rate of attraction of additional borrowed funds at the date of initial application of the standard.

During 2017, the Bank will continue evaluating the possible impact on its financial statements.

Amendments to IFRS 40 Investment property – Reclassification of investment property . Amendments clarify when immovable property should be reclassified as investment property (in particular properties in process of construction or renovation). Change in use of property comes when property begins or discontinues to comply to investment property definition and evidences of change in use are present according to the amendment. Changes in the management's intentions on use of property do not indicate actual changes in its use. The above amendments apply in prospect to changes in pattern of use, which happen as of the beginning date of the annual period, when the above amendments are first applied or after this date. The amendments become effective for annual periods beginning on or after January 1, 2018. As the current activities of the Bank comply the requirements of the standard, than the Bank does not expect impact on financial statements.

Interpretation of IFRIC 22 Foreign currency transactions and advance payment. Interpretation clarifies that date of the transaction for the purpose of determining the exchange rate is the date of initial recognition of the non-monetary prepayment asset of deferred income liability. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. As the current activities of the Bank comply the requirements of the standard, than the Bank does not expect impact on financial statements.

The Bank also didn't apply such new and revised IFRS, which were issued, but didn't become effective:

Amendments to IFRS 2 Share-based Payment – is effective for annual periods on or after January 1, 2018. The bank does not expect impact on financial statement;

Amendments to IFRS 10 Consolidated Financial IAS 28 Investments in Associates and Joint Ventures – "Sale or Transfer of Assets in Transactions between an Investor and his affiliated entity or joint venture" – these amendments are postponed indefinitely. The amendments are expected to have no impact on the Bank's financial statements;

IFRS 17 Insurance contracts - is effective for annual periods on or after January 1, 2021. This standard does not apply to the Bank.

Amendments to IFRS 4 Insurance contract – application of IFRS 9 Financial instruments simultaneously with IFRS 4 Insurance contracts – become effective for annual periods on or after January 1, 2018. These amendments do not apply to the Bank;

Annual updates of IFRS, the 2014-2016 period (published in December 2016). Updates IFRS 1 First-time adoption of International Financial Reporting Standards, IAS 28 Investments to Associates and Joint Ventures become effective for annual periods on or after January 1, 2018. These amendments do not apply to the Bank;

Interpretation of IFRIC 23 Uncertainty on rules of calculation of income tax – become effective for annual periods on or after January 1, 2019. As tax legislation of Ukraine permits different interpretations, the Bank expects possible impact on financial statements and information disclosure.

Annual updates of IFRS, the 2015-2017 period (published in December 2017). Updates IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs become effective for annual periods on or after January 1, 2019. These amendments do not apply to the Bank;

6. Significant accounting judgments and estimates

The Bank makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually reviewed and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In addition to statements that involve accounting estimates, management also uses judgment in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Going concern assumptions of the Bank.

The factors described in Note 2 to these financial statements continued to affect the financial position and performance of the Bank. According to the results of 2017, the Bank received a net loss of UAH 570 237 thousand, mainly due to the charged provision for loan impairment in the amount of UAH 359 050 thousand. As at December 31, 2017, as indicated in the section "Liquidity risk" in Note 26, the cumulative liquidity difference of the Bank for up to one year period and the total cumulative liquidity difference were negative values in the amount of UAH 3 229 943 thousand and UAH 1 106 081 thousand, respectively. Excess of short-term obligations of the Bank over short-term assets of the Bank is calculated, taking into account the stable part of clients' funds, as obligations with indeterminate actual term of return, amounts to UAH 425 925 thousand.

Management prepared these financial statements in accordance with the going concern principle. The management took into account continuous financial support of the Bank's Shareholder, execution of the approved resolution approved by the Shareholder to increase the share capital of the Bank in the amount of UAH 1 199 000 thousand in 2017, the placement by the Shareholder of funds to cover arrears on non-performing loans, consistent actions of the Bank's Shareholder on financial support of the Bank, implementation of approved by the Bank's Supervisory Board and the NBU Action Plan on elimination of breaches of the Bank's economic ratios during 2016-2017, further stabilization of the political and the economic situation in Ukraine, the cessation of hostilities in Ukraine, the financial condition of the Bank, planned access to financial resources, as well as analysis of impact from the current financial and economic conditions on future operations of the Bank. Following such assumptions, the Bank's management also took into account the following factors and concluded that the assumption of going concern in the preparation of these financial statements is appropriate.

Capital. On April 19, 2016 the Supervisory Board approved the Action Plan on eliminating violations of economic ratios, including Restructuring Plan (hereinafter Action Plan) for the purpose of further support of the capital based on the results of diagnostic study as required by the National Bank's Board dated April 15, 2015 No 260 "On diagnostic testing of banks". The Action Plan was approved by the decision of the Bank's Shareholder and by the resolution of the National Bank of Ukraine. The Restructuring Plan includes capitalization of the Bank in the amount and in terms approved by the respective resolution of the Board of the National Bank of Ukraine. In addition to improvement of the operational result of the Bank due to intensified lending of households, small and medium enterprises, implementation of the actions planned in the Restructuring Plan will help the Bank to increase capital adequacy ratio to the level not less 10% as of January 1, 2019. The Shareholder of the Bank took resolution on increase of the capital by UAH 1 199 million by private placement of additional shares of existing nominal value on June 21, 2017 as support of capitalization program of the Action Plan and completed payment for issued shares on September 25, 2017. The Shareholder placed additionally funds on cash cover deposit to secure indebtedness on non-performing loans in the amount of USD 13 673 thousand. Such support of the Shareholder helped the Bank to carry out its obligations on the Restructuring Plan ahead of schedule.

The above factors raised considerable uncertainty, which can put in question the Bank's ability to continue as a going concern. However, sustainable financial support of the Shareholder provides sufficient confidence of the management regarding the Bank's ability to continue as a going concern.

The quality of the loan portfolio. While evaluating quality of credit operations, the Bank follows the principle of preferring essence of transaction to its form. This principle includes provision of full and adequate evaluation of credit risk for calculation of asset credit risk both on individual and collectively basis taking into consideration its own experience by use of the management's judgement to determine materiality of impact on quality of an asset from any given factors.

As of December 31, 2017 the Bank had loans and advances to customers associated with the not controlled by the government of Ukraine territories in Donetsk and Lugansk regions and in Crimea, in the amount of UAH 1 283 047 thousand (2016: UAH 1 203 736 thousand). Increase of indebtedness compared to 2016 stemmed from devaluation of Hryvnia to currencies, in which indebtedness of the mentioned customers was denominated. The Bank considered known and measurable risk factors as of the date of these financial statements in assessing the impairment of such loans. In case of further escalation of military activities, the Bank may incur losses due to difficulties in recovering assets located in that territory or nonpayment of debts on loans by companies registered in such territories. Such losses could affect the Bank's ability to continue as a going concern.

Future cash flows, potentially generated by foreclosure of pledged property, are calculated at evaluation of the Bank's assets taking into account available legal possibilities of the Bank to realize its rights as pledge holder, quality of debt servicing by borrower, stage of litigation works and liquidity coefficient of collateral, as well as the bank's experience on terms of disposal for a specific asset class. Any potential or actual limitations in realization of pledge holder rights, which could be considered temporary, but not permanent, are included at evaluation of an asset with allowance made for peculiarities disclosed in the mentioned paragraph and for its own experience of the Bank. If the mentioned limitations become permanent, as the Bank loses the right to foreclose a collateral, they could result in increase of expenses and affect the Bank's ability to continue as a going concern.

Economic ratios Taking into account the need to create conditions for ensuring the sustainability of Ukrainian banks and the impact of the difficult economic situation and military operations in some regions of Ukraine on the banking sector, the NBU does not apply sanctions to banks for the violation of the aforementioned mandatory ratios according to the Board Resolution No 129 dated February 24, 2015 and the Board Resolution No 314 dated May 12, 2015. In addition to the Action Plan on elimination of breaches of economic ratios, the decision of the Bank's Shareholder approved the Action Plan on bringing the ratio of the maximum credit risk on transactions with affiliated parties to correspondence with regulatory requirements set by the resolution of the National Bank of Ukraine Board. In accordance with the Action Plan on elimination of breaches of economic ratios and the Action Plan on bringing the ratio of maximum credit risk on transactions with affiliated parties the Bank plans to eliminate breaches of economic ratios till January 1, 2019. On June 21, 2017 the Shareholder took decision about increase of the Bank's capital by private placement of additional shares of the existing nominal value in the amount UAH 1 199 000 thousand. On September 25, 2017 the Shareholder completed payment for issued shares, resulting in pre-scheduled fulfillment of obligations under the Restructuring Plan by the Bank and Shareholder.

The management believes, considering the above factors and ongoing support of the Shareholder, that there is sufficient confidence about the Bank's ability to continue as a going concern.

Impairment losses on loans and advances to customers. The Bank regularly reviews its loan portfolio to assess impairment. In determining whether to reflect impairment loss in profit or loss, the Bank uses judgments whether there is any observable data indicating a decrease in the estimated future cash flows from the loan portfolio that can be measured before this decrease can be identified with an individual loan in that portfolio. Such evidence may include observable data indicating an adverse change in the solvency of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and reliable evidences of impairment similar to those in the portfolio when estimating its future cash flows.

The methodology and assumptions used for estimating both terms and amounts of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In preparing these financial statements the management has used estimates of future cash flows on loans, taking into account restructuring of assets, as well as restructurings in the process of approval by the customers. Future cash flows on loans also include those that might occur in the event of restructuring of non-performing assets or objective reasons supported by documents. In the case of non-occurrence of the planned restructuring or change of estimates of future cash flows on made restructurings, the estimated amount of the required reserve can be increased.

Recognition of deferred income tax asset. The recognized deferred tax asset represents the amount of income tax that can be credited against future income taxes and recognized in the statement of financial position. Deferred income tax assets are only recognized to the extent that it is probable to use the related tax credit. The assessment of future taxable profits and the amount of tax credits the use of which is probable in the future is based on medium term business plan prepared by management and extrapolated results for future periods. The business plan is based on management expectations that are believed to be reasonable under the circumstances. As expected, the Bank will receive a stable income in the future. Key assumptions used in the business plan include expected stabilization of the economy of Ukraine, the gradual decline in interest rates (on loans and funding), moderate growth in the loan portfolio, reducing provisioning for loan impairment due to the expected improvement in the economy and further strengthening of control over costs. Given the planned future returns and that the current Ukrainian tax legislation does not impose term limits on the use of tax losses carried forward, management believes appropriate the recognition of the deferred tax asset. As at December 31, 2017 the Bank recognized deferred income tax in the amount of UAH 263 099 thousand (Note 14).

Tax legislation. The tax, currency and customs legislation in Ukraine is subject to varying interpretations (Note 20).

Recognition of related party transactions. In the normal course of business, the Bank enters into transactions with related parties. IAS 39 requires to account financial instruments at initial recognition at fair value. In the absence of an active market for such transactions in order to determine if transactions are priced at market or non-market rates, the professional judgment was used. The basis for such judgments is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms of transactions with related parties are disclosed in Note 27.

On May 12, 2015, the NBU approved resolution No 315 on Regulation on the definition of parties related to a bank, which established criteria for recognition of related parties that significantly differed from recognition criteria of related parties under IAS 24. In particular, the related parties under this Regulation are: (1) two legal entities due to the fact that they have a common director or other member of the key management staff or due to the fact that a member of the key management staff has significant influence on the other entity; (2) two persons who are participants in joint ventures just because they exercise joint control over the joint activity; (3) the parties providing financing; (4) a single buyer, supplier and others, with which the company enters into a substantial volume transactions only due to the appearance of economic dependence as a result of these transactions, while under IAS 24 such parties are not related.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation methods that include the use of mathematical models. The input data to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is otherwise required in establishing fair values. Judgements take into account following input data, as liquidity risk and volatility. Changes in assumptions regarding those factors can influence fair value of financial instruments, presented in financial statements (Note 29).

Determination of revalued amount of buildings and investment property items. Buildings are accounted at revalued value equaling to fair value as at valuation date less any subsequent accumulated depreciation and impairment losses. Investment property is accounted at fair value. The Management of the Bank engaged independent appraiser to determine fair value of buildings and investment property as of November 1, 2017. The appraiser used market approach based on analysis of comparable sales of similar buildings and facilities to determine fair value of the mentioned assets. Changes in fair value of buildings are recognized in other comprehensive income, while changes in fair value of investment property are recognized in profit or loss (Notes 11 and 13).

7. Cash and cash equivalents

Cash and cash equivalents include:

	2017	*2016*
Cash on hand	176 452	180 938
Current accounts with banks	988 586	434 726
Current accounts with NBU	268 931	171 185
Total cash and cash equivalents	**1 433 969**	**786 849**

As at December 31, 2017 the amount equivalent to UAH 988 560 thousand (2015: UAH 430 708 thousand) was placed on current accounts with four banks from OECD countries (2016: two banks from OECD countries), who are the main counterparties of the Bank in performing international settlements.

Deposit certificates issued by the National Bank of Ukraine, with a maturity of up to 30 days are included in "Cash and cash equivalents" as they have an insignificant risk of changes in value and are readily convertible to a known amount of cash. As at December 31, 2017 the total amount of cash and cash equivalents for the purposes of the Statement of cash flows excluding accrued interest on current accounts with banks and deposit certificates of the NBU is UAH 2 433 959 thousand (2016: UAH 1 786 849 thousand).

8. Amounts due from banks

Amounts due from banks include:

	2017	*2016*
Guarantee deposits with other banks	475 101	105 941
Correspondent accounts with other banks	13 867	38 003
Amounts due from banks	**488 968**	**143 944**
Less: provision for impairment of amounts due from banks	(2 114)	(1 993)
Total amounts due from banks	**486 854**	**141 951**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Amounts due from banks include following guarantee deposits:

	2017				2016		
	Ukraine	*OECD*	*Other*	*Total*	*Ukraine*	*OECD*	*Total*
Payment card transactions	4 670	99 892	-	**104 562**	14 036	91 633	**105 669**
Documentary transactions	-	369 107	1 232	**370 339**	-	-	**-**
Money transfer systems transactions	200	-	-	**200**	272	-	**272**
Total guarantee deposits due from banks	**4 870**	**468 999**	**1 232**	**475 101**	**14 308**	**91 633**	**105 941**

Maturities of deposits, concertation of foreign currency risks and other risks are disclosed in Note 26.

As at December 31 amounts due from banks structured by credit quality included:

	2017	*2016*
A+/A-	466 343	-
BBB+/BBB-	2 841	91 657
BB+/BB-	1 283	37 793
B+/B-	4 078	-
CCC	7 340	334
No rating	7 083	14 160
Amounts due from banks	**488 968**	**143 944**
Impairment allowance for amounts due from banks	(2 114)	(1 993)
Total amounts due from banks	**486 854**	**141 951**

Credit ratings are based on ratings of Fitch international rating agency, if available, or on ratings of other international rating agencies, transformed to the closest equivalent on Fitch scale.

Changes in allowance on impairment of amounts due from banks are:

	2017	*2016*
January 1	**1 993**	**945**
Charge to provision for impairment	(514)	506
Foreign currency translations	635	542
December 31	**2 114**	**1 993**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

9. Loans and advances to customers

Loans and advances to customers comprised:

	2017	*2016*
Loans to legal entities	**5 835 627**	**5 588 301**
Loans to individuals	**785 255**	**557 343**
- mortgage	72 059	68 464
- car	79 312	72 310
- cash loans and credit cards	337 345	149 921
- other	296 539	266 648
Loans to customers	**6 620 882**	**6 145 644**
Less: provision for impairment of loans and advances to customers	(2 501 900)	(2 144 008)
Total loans to customers	**4 118 982**	**4 001 636**

Loans to individuals classified as "Other" include general purpose loans, which cannot be included into any other category. Mortgage loans represent loans granted for purchase of residential property, which are secured by this property only.

Changes in allowance for impairment of loans to customers for the year ended December 31, 2017 are:

	Loans to legal entities	*Loans to individuals*	*Total*
January 1, 2017	**1 755 872**	**388 136**	**2 144 008**
Charge to provision for impairment	319 228	57 549	**376 777**
Bad debt write-off	(109 991)	(2 006)	**(111 997)**
Translation differences	82 630	10 482	**93 112**
December 31, 2017	**2 047 739**	**454 161**	**2 501 900**
Individually assessed impairment	2 046 448	447 259	**2 493 707**
Collectively assessed impairment	1 291	6 902	**8 193**
	2 047 739	**454 161**	**2 501 900**

The amount of provision for impairment during 2017 differs from the amount reported in the profit or loss for the period as a result of reimbursement on loans previously written off as uncollectible in the amount of UAH 17 213 thousand (2016: UAH 12 650 thousand), including the reimbursement of UAH 15 671 thousand of corporate loans (2016: UAH 12 598 thousand) and UAH 1 542 thousand of loans to individuals (2016: UAH 52 thousand), as well as the provision for amounts due from banks. The recoverable amount was credited directly to the line Recovery of/ (Charge to) provision for impairment of amounts due from banks in profit or loss for the period.

Changes in allowance for impairment of loans to customers for the year ended December 31, 2016 are:

	Loans to legal entities	*Loans to individuals*	*Total*
1 January 2016	**1 518 156**	**289 251**	**1 807 407**
Charge to provision for impairment	555 854	102 488	**658 342**
Bad debt write-off	(497 544)	(9 297)	**(506 841)**
Translation differences	179 406	5 694	**185 100**
31 December 2016	**1 755 872**	**388 136**	**2 144 008**
Individually assessed impairment	1 755 559	386 714	**2 142 273**
Collectively assessed impairment	313	1 422	**1 735**
	1 755 872	**388 136**	**2 144 008**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Analysis by credit quality of loans to customers as at December 31, 2017 is as follows:

	Loans and advances, gross	***Impairment***	***Loans and advances, net***	***Impairment to gross loans and advances***
Loans and advances neither past due nor impaired	**844 608**	**-**	**844 608**	**0.0%**
Loans to legal entities	**843 814**	**-**	**843 814**	**0.0%**
Loans to individuals	**794**	**-**	**794**	**0.0%**
mortgage	179	-	179	0.0%
cash loans and credit cards	615	-	615	0.0%
Loans and advances past due but not impaired	**580 167**	**-**	**580 167**	**0.0%**
Loans to legal entities	**579 557**	**-**	**579 557**	**0.0%**
Loans to individuals	**610**	**-**	**610**	**0.0%**
mortgage	13	-	13	0.0%
car	594	-	594	0.0%
cash loans and credit cards	3	-	3	0.0%
Loans and advances individually impaired	**4 930 741**	**(2 493 708)**	**2 437 033**	**50.6%**
Loans to legal entities	**4 366 783**	**(2 046 448)**	**2 320 335**	**46.9%**
Loans to individuals	**563 958**	**(447 260)**	**116 698**	**79.3%**
mortgage	70 427	(57 792)	12 635	82.1%
car	78 378	(66 498)	11 880	84.8%
cash loans and credit cards	119 153	(80 458)	38 695	67.5%
other	296 000	(242 512)	53 488	81.9%
Loans and advances collectively impaired	**265 366**	**(8 192)**	**257 174**	**3.1%**
Loans to legal entities	**45 473**	**(1 291)**	**44 182**	**2.8%**
Loans to individuals	**219 893**	**(6 901)**	**212 992**	**3.1%**
mortgage	1 440	(419)	1 021	29.1%
car	340	(263)	77	77.4%
cash loans and credit cards	217 574	(5 680)	211 894	2.6%
other	539	(539)	-	100%
Total loans to customers	**6 620 882**	**(2 501 900)**	**4 118 982**	**37.8%**

As at December 31, 2017 accrued interest income from individually impaired loans was UAH 1 308 413 thousand (2016: UAH 1 047 358 thousand).

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Analysis by credit quality of loans to customers as at December 31, 2016 is as follows:

	Loans and advances, gross	***Impairment***	***Loans and advances, net***	***Impairment to gross loans and advances***
Loans and advances neither past due nor impaired	**1 726 244**	**-**	**1 726 244**	**0.0%**
Loans to legal entities	**1 723 530**	**-**	**1 723 530**	**0.0%**
Loans to individuals	**2 714**	**-**	**2 714**	**0.0%**
- mortgage	1 536	-	1 536	0.0%
- car	110	-	110	0.0%
- cash loans and credit cards	1	-	1	0.0%
- other	1 067	-	1 067	0.0%
Loans and advances past due but not impaired	**347 738**	**-**	**347 738**	**0.0%**
Loans to legal entities	**343 893**	**-**	**343 893**	**0.0%**
Loans to individuals	**3 845**	**-**	**3 845**	**0.0%**
- mortgage	1 146	-	1 146	0.0%
- car	2 483	-	2 483	0.0%
- other	216	-	216	0.0%
Loans and advances individually impaired	**3 985 557**	**(2 142 273)**	**1 843 284**	**53.8%**
Loans to legal entities	**3 507 414**	**(1 755 559)**	**1 751 855**	**50.1%**
Loans to individuals	**478 143**	**(386 714)**	**91 429**	**80.9%**
- mortgage	65 376	(51 512)	13 864	78.8%
- car	68 554	(58 987)	9 567	86.0%
- cash loans and credit cards	79 396	(64 340)	15 056	81.0%
- other	264 817	(211 875)	52 942	80.0%
Loans and advances collectively impaired	**86 105**	**(1 735)**	**84 370**	**2.0%**
Loans to legal entities	**13 465**	**(313)**	**13 152**	**2.3%**
Loans to individuals	**72 640**	**(1 422)**	**71 218**	**2.0%**
- mortgage	406	(2)	404	0.5%
- car	1 163	(56)	1 107	4.8%
- cash loans and credit cards	70 524	(1 290)	69 234	1.8%
- other	547	(74)	473	13.7%
Total loans to customers	**6 145 644**	**(2 144 008)**	**4 001 636**	**34.9%**

Amount and type of collateral required by the Bank depends on assessment of the counterparty's credit risk. The Bank has policies and procedures established for accepting collateral types and their valuation.

The main types of the collateral received under for loans to legal entities and individuals are cash, real estate and other pledged assets, guarantees issued by individuals and legal entities, however guarantees, goods in turnover and property rights on contracts are generally not considered in calculation allowance for impairment.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

See below the effect of collateral as at December 31, 2017:

	Carrying value of loans to customers	*Expected cash flows from collateral realization*	*Collateral effect*
Loans to legal entities	**5 835 627**	**3 520 918**	**2 314 709**
Loans to individuals	**785 255**	**50 565**	**734 690**
- mortgage	72 059	10 356	61 703
- car	79 312	6 082	73 230
- cash loans and credit cards	337 345	3	337 342
- other	296 539	34 124	262 415
Loans to customers	**6 620 882**	**3 571 483**	**3 049 399**

See below the effect of collateral as at December 31, 2016:

	Carrying value of loans to customers	*Expected cash flows from collateral realization*	*Collateral effect*
Loans to legal entities	**5 588 301**	**2 665 135**	**2 923 166**
Loans to individuals	**557 343**	**73 480**	**483 863**
- mortgage	68 464	13 477	54 987
- car	72 310	10 714	61 596
- cash loans and credit cards	149 921	821	149 100
- other	266 648	48 468	218 180
Loans to customers	**6 145 644**	**2 738 615**	**3 407 029**

During 2017 the Bank obtained ownership collateral on indebtedness in the amount of UAH 153 268 thousand. (2016: UAH 323 247 thousand) (Notes 11 and 15).

Concentration of client loans

Loans granted to five largest groups of borrowers, among which no entities were related parties of the Bank, amounted to UAH 2 395 082 thousand or 36.2% of the total loans to customers as of December 31, 2017 (2016: UAH 2 208 809 thousand or 35.9%).

On May 12, 2015, the NBU approved Resolution No 315 on Regulation on the definition of parties related to a bank, which introduced its own set of criteria for the recognition of related parties, differing significantly from related parties recognition criteria under IAS 24.

As of December 31, 2017 the total amount of loans to two companies, which do not meet the related party criteria under IAS 24, but are considered to be related to the Bank in accordance to the NBU regulations, was UAH 141 346 thousand (2016: UAH 129 190 thousand).

Breakdown of loans to customers by industries, whose credit risk influences loan quality, is:

	2017	*2016*
Wholesale and retail trade	2 224 750	2 238 517
Manufacturing	2 119 177	2 140 946
Individuals	785 255	557 343
Agriculture	661 289	348 711
Real estate transactions	227 336	233 648
Mining industry and quarry development	187 163	184 091
Activities in administrative and ancillary services	182 968	210 485
Information and telecommunications	131 635	143 987
Transport, warehouses	87 988	83 765
Financial and insurance activities	7 753	-
Waste management	2 773	2 444
Construction	2 638	1 515
Other	157	192
Loans to customers	**6 620 882**	**6 145 644**

As at December 31, 2017 and 2016 there were no loans used as collateral for any liabilities of the Bank.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Breakdown of loans to customers by repayment period, interest rate and currency is provided in Note 26.

10. Securities available-for-sale

Investments in available-for-sale securities comprise:

	2017	*2016*
Securities refinanced by the National Bank of Ukraine	279 488	-
Equity securities and other financial instruments with unfixed income, accounted at cost	491	472
Securities available-for-sale	**279 979**	**472**
Less: provision for impairment of securities available-for-sale	(105)	(31)
Total securities available-for-sale	**279 874**	**441**

As at 31.12.2017 Securities refinanced by the National Bank of Ukraine included two bonds stocks, denominated in US Dollars: 1) 4 990 two-year interest bearing bonds (5.4%) matured in October 2019 2) 5 000 six month discount bonds (5.05%) matured in June 2018.

Changes in provisions for impairment of securities available-for-sale:

	2017	*2016*
At January 1	**31**	**31**
Charge to (recovery of) provisions for impairment	74	-
At December 31	**105**	**31**

As of December 31 2017 fair value of securities in the Bank's portfolio available-for-sale is disclosed in Note 29.

11. Investment property

Investment property initially received through enforcement of collateral is recognized in the statement of financial position at fair value.

Change of the investment property fair value:

	2017	*2016*
As at January 1	**1 276 502**	**319 597**
Transfer from non-current assets available-for-sale (Note 15)	8 003	527 404
Enforcement of collateral	111 934	132 832
Transfer from other assets (Note 12)	-	9 904
Transfer from owner-occupied buildings (Note 13)	-	494
Capital investments for reconstruction	84	45
Transfer to owner-occupied buildings (Note 13)	-	(59 202)
Transfer to non-current assets available-for-sale (Note 15)	-	(10 679)
Loss from revaluation to fair value	(67 552)	(20 667)
Profit from revaluation to fair value	6 468	376 774
As at December 31	**1 335 439**	**1 276 502**

Lease income received from investment property during 2017 totaled UAH 6 238 thousand (2016: UAH 6 340 thousand), which is recognized as other income in the statement of profit or loss and other comprehensive income (Note 23). Operational expense on maintenance of investment property totaled UAH 5 098 thousand in 2017 (2016: UAH 3 226 thousand).

If property, partly owner-occupied and partly rented, does not meet criteria of delimitation for recognizing property as investment one, such property is recognized as owner-occupied property.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

In 2017 and 2016, the Management of the Bank approved decisions to adjust carrying value of all investment property items based on the reports of independent appraisers on determination of fair value of investment property. According to the carrying amount adjustment it was recognized a loss for UAH 61 084 thousand (2016: 356 107 thousand), which is reported in statement of profit and loss and other comprehensive income.

As of December 31, 2017 one item of investment property at fair value of UAH 14 000 thousand (2015: UAH 14 808 thousand) is located in Crimea. Now the Bank retains control over this property, but can take losses at loss of control in case of further deterioration of relations between Ukraine and Russian Federation.

12. Other financial and non-financial assets

As at December 31, other financial and non-financial assets comprised:

	2017	*2016*
Other financial assets		
Accrued income receivable	60 484	41 214
Accounts receivable on settlements with banks	26 687	26 104
Accounts receivable on settlements with customers	4 373	9 260
Derivate financial assets	-	8 857
Restricted amounts due from other banks	-	857
Cash with non-approved availability	-	137
Other financial assets	452	-
Other financial assets	**91 996**	**86 429**
Less: Provision for impairment of other financial assets	(86 066)	(49 799)
Other financial assets	**5 930**	**36 630**

	2017	*2016*
Other assets		
Repossessed collateral	66 065	13 257
Prepaid expenses	14 818	9 463
Settlements with bank's employees	10 332	2 562
Expenses of future periods	8 391	8 240
Purchase of non-current assets	2 263	2 407
Prepaid taxes and mandatory payments other than income tax	991	493
Inventories	754	867
Precious metals	370	452
Other assets	**103 984**	**37 741**
Less: Provision for impairment of other non-financial assets	(16 249)	(9 783)
Other assets	**87 735**	**27 958**

During the year, the changes of the items of the provision for losses on impairment of other assets were as follows:

	2017	*2016*
January 1	**59 582**	**29 268**
Charge to provision for impairment	49 786	27 742
Translation differences	(8 218)	3 049
Write-offs	1 165	(477)
December 31	**102 315**	**59 582**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

13. Property, equipment and intangible assets

Changes in property, equipment and intangible assets during the year ended December 31, 2017 are:

	Buildings, facilities and transmit-ting equipment	*Furniture, appliances and office equipment*	*Machinery and equipment*	*Vehicles*	*Other PE and non-current tangible assets*	*Intangible assets*	*Capital investments in progress in PE and intangible assets*	*Total*
Cost or revalued amount								
January 1, 2017	**189 177**	**37 591**	**24 616**	**5 138**	**30 543**	**30 134**	**2 146**	**319 345**
Additions	502	7 406	5 202	-	5 890	8 798	7 608	**35 406**
Disposals	-	(1 308)	(454)	(506)	(6 674)	(1 814)	-	**(10 756)**
December 31, 2017	**189 679**	**43 689**	**29 364**	**4 632**	**29 759**	**37 118**	**9 754**	**343 995**
Accumulated depreciation and amortization								
January 1, 2017	**68**	**32 571**	**21 516**	**5 036**	**26 612**	**18 385**	**-**	**104 188**
Charge for the year	3 774	2 620	1 517	58	4 922	4 987	-	**17 878**
Disposals	-	(1 293)	(70)	(506)	(6 648)	(1 814)	-	**(10 331)**
December 31, 2017	**3 842**	**33 898**	**22 963**	**4 588**	**24 886**	**21 558**	**-**	**111 735**
Net book value								
January 1, 2017	**189 109**	**5 020**	**3 100**	**102**	**3 931**	**11 749**	**2 146**	**215 157**
December 31, 2017	**185 837**	**9 791**	**6 401**	**44**	**4 873**	**15 560**	**9 754**	**232 260**

Buildings are recognized at a revalued amount representing fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses.

The fair value of buildings and facilities was determined by the method of comparison with market data. The evaluation was completed by the independent valuer as of November 1, 2017 (Note 29). The Bank's management decided to leave unchanged the fair value of buildings and facilities due to insignificant changes of fair value of buildings (0.39%).

As at December 31, 2017, the cost of fully depreciated property, plant and equipment included in "Furniture, implements and office equipment group" totaled UAH 26 567 thousand (2016: UAH 25 435 thousand), included in "Machinery and equipment group" - UAH 15 299 thousand (2016: UAH 11 961thousand), included in "Vehicles group" - UAH 4 392 thousand (2016: UAH 4 736 thousand), included in "Other property, plant and equipment and non-current tangible assets group" - UAH 21 857 thousand (2015: UAH 24 061 thousand).

Increase of capital investments in progress in PE and intangible assets by UAH 7 608 million was driven by improvement of the premises of the Bank's new place located at Zhylanska 32, Kyiv being in long-term lease according to the agreement concluded in January of the reporting year.

As of December 31, 2016 and 2017 fixed assets were not pledged.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Changes in property, equipment and intangible assets during the year ended December 31, 2016 are:

	Buildings, facilities and transmitting equipment	*Furniture, appliances and office equipment*	*Machinery and equipment*	*Vehicles*	*Other PE and non-current tangible assets*	*Intangible assets*	*Capital investments in progress in PE and intangible assets*	*Total*
Cost or revalued amount								
December 31, 2015	**153 963**	**38 851**	**27 826**	**6 395**	**31 679**	**23 054**	**3 516**	**285 284**
Additions	127	3 014	962	-	3 842	7 080	-	**15 025**
Transfers to non-current assets held-for-sale (Note 15)	(1 856)	-	-	(171)	-	-	-	**(2 027)**
Transferred from investment property (Note 11)	59 202	-	-	-	-	-	-	**59 202**
Transferred to investment property (Note 11)	(494)	-	-	-	-	-	-	**(494)**
Disposals	-	(4 274)	(4 172)	(1 086)	(5 006)	-	(1 370)	**(15 908)**
Revaluation through other comprehensive income	1 245	-	-	-	-	-	-	**1 245**
Revaluation through profit or loss	(271)	-	-	-	-	-	-	**(271)**
Revaluation (exclusion from carrying value)	(22 711)	-	-	-	-	-	-	**(22 711)**
Other transfers	(28)	-	-	-	28	-	-	**-**
December 31, 2016	**189 177**	**37 591**	**24 616**	**5 138**	**30 543**	**30 134**	**2 146**	**319 345**
Accumulated depreciation and amortization								
December 31, 2015	**20 129**	**33 837**	**23 862**	**5 639**	**27 975**	**15 584**	**-**	**127 026**
Charge for the year	2 658	2 997	1 826	483	3 438	2 801	-	**14 203**
Disposals	-	(4 263)	(4 172)	(1 086)	(4 809)	-	-	**(14 330)**
Revaluation (exclusion from carrying value)	(22 711)	-	-	-	-	-	-	**(22 711)**
Other transfers	(8)	-	-	-	8	-	-	**-**
December 31, 2016	**68**	**32 571**	**21 516**	**5 036**	**26 612**	**18 385**	**-**	**104 188**
Net book value								
December 31, 2015	**133 834**	**5 014**	**3 964**	**756**	**3 704**	**7 470**	**3 516**	**158 258**
December 31, 2016	**189 109**	**5 020**	**3 100**	**102**	**3 931**	**11 749**	**2 146**	**215 157**

At December 31, 2017 the Bank has contractual commitments related to purchase of intangible assets in the amount of UAH 2 095 thousand (2016: no commitments).

14. Deferred income tax assets

According to the Tax Code of Ukraine, rate of corporate income tax as at 1 January 2018 and 2017 was 18%. Deferred tax assets and liabilities are determined by the Bank using the tax rate that will apply starting from January 1, 2018.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The components of income tax (benefit)/expense recognized in the profit or loss for the year ended 31 December are:

	2017	*2016*
Current income tax	(249)	-
Deferred income tax benefit – origination and reversal of temporary differences	352	(117 727)
Income tax benefit	**103**	**(117 727)**

The reconciliation between expected income tax (benefit)/expense calculated by applying the effective income tax rate to profit before tax and the reported income tax (benefit)/expense is as follows:

	2017	*%*	*2016*	*%*
Profit/ (Loss) before income tax	(570 340)		(674 317)	
Expected expense / (benefit) computed at effective statutory rate	102 661	18%	121 377	18.0%
Deferred tax differences	(115 368)	20.92%	12 103	(1.8%)
Write off, remission of loans	13 022	(2.93%)	(15478)	2.3%
Net non-deductible expenses	(212)	-	(275)	-
Income tax benefit	**103**	**-**	**117 727**	**(17.5%)**

Deferred tax assets and liabilities as at December 31, 2017 are attributable to the items detailed as follows:

	At January 1, 2017	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*At December 31, 2017*
	Asset/ (Liability)	*Benefit/ (expense)*	*Benefit/ (expense)*	*Asset/ (Liability)*
Provision for impairment of loans and advances to customers	156 016	(61 646)	-	94 370
Property, plant and equipment and intangible assets	1 315	(3 184)	-	(1 869)
Revalued amount of investment property	(8 088)	3 303	-	(4 785)
Impairment of other assets	25	(25)	-	-
Other assets	325	-	-	325
Other liabilities	319	78	-	397
Tax losses deferred to future periods	112 973	61 826	-	174 799
Securities available-for-sale	-	-	(138)	(138)
	262 885	**352**	**(138)**	**263 099**

Deferred tax assets and liabilities as at 31 December 2016 are attributable to the items detailed as follows:

	At January 1, 2016	*Recognized in profit or loss*	*At December 31, 2016*
	Asset/ (Liability)	*Benefit/ (expense)*	*Asset/ (Liability)*
Provision for impairment of loans and advances to customers	141 138	14 878	156 016
Amortized cost of amounts due from banks	162	(162)	-
Property, plant and equipment and intangible assets	2 873	(1 558)	1 315
Revalued amount of investment property	(9 497)	1 409	(8 088)
Impairment of other assets	5 202	(5 177)	25
Other assets	966	(641)	325
Other liabilities	(124)	443	319
Tax losses deferred to future periods	4 111	108 862	112 973
Other temporary differences	328	(328)	-
	145 159	**117 727**	**262 885**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

15. Non-current assets held for sale

As of December 31 non-current assets held-for-sale are:

	2017	*2016*
Residential premises	31 583	3 464
Nonresidential premises	-	62 719
Integral property complexes	-	47 754
Land lots	-	-
Other	9 244	1 042
Non-current assets held-for-sale total	**40 827**	**114 979**

The Bank management decided to reclassify part of non-current assets held-for-sale, due to changes in plans for the use of these assets. Changes in the structure of assets held-of-sale include:

	2017	*2016*
At January 1	**114 979**	**471 316**
Foreclosure of collateral accepted to secure loans	41 334	190 415
Disposal of non-current assets held-for-sale	(3 290)	(15 424)
Loan recovery	(44 471)	-
Reclassification to investment property (Note 11)	(8 003)	(527 404)
Transfer from owner-occupied buildings (Note 13)	-	2 027
Reclassification from investment property (Note 11)	-	10 679
Transfer from/to other assets (Note 12)	(58 794)	(13 078)
Increase/ (Decrease) in carrying value of non-current assets held-for-sale up to fair value	(928)	(3 552)
At December 31	**40 827**	**114 979**

Result from sale of non-current assets held-for-sale is disclosed in Other income item of the statement of profit and loss and other comprehensive income (Note 23).

16. Amounts due to customers

As at December 31 amounts due to customers comprised:

	2017	*2016*
Current accounts:		
- legal entities	3 739 110	2 325 240
- individuals	936 212	745 476
	4 675 322	**3 070 716**
Term deposits:		
- legal entities	442 564	600 400
- individuals	3 218 674	3 771 170
	3 661 238	**4 371 570**
Amounts due to customers	**8 336 560**	**7 442 286**

As at December 31, 2017, the balances on current accounts of legal entities amounting to UAH 1 943 683 thousand or 41.6% of total current accounts of customers are placed by ten largest corporate customers (2016: UAH 801 043 thousand or 26.0%). The current account with balance amounting to UAH 11 402 thousand, 0.2% of total balances on current accounts of customers, is placed by one individual customer (2016: UAH 16 497 thousand or 0.5%).

As at December 31, 2017, deposits of legal entities in the amount of UAH 285 505 thousand or 7.8% of the total amount of deposits from customers (2016: UAH 360 435 thousand or 8.2%) were placed by ten largest corporate customers. As at December 31, 2017, deposits of individuals amounting to UAH 347 731 thousand or 9.5% of the total amount of deposits from customers were placed by three largest customers (2016: UAH 337 704 thousand or 7.0%).

As at December 31, 2017, balances on current accounts and term deposits of legal entities in the amount of UAH 896 191 thousand or 10.8% of total customer funds (2016: UAH 887 021 thousand or 11.9%) were attracted from customers who did not meet the related party criteria under IAS 24, but considered to be related to the Bank in accordance with the regulations of the NBU.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

As at December 31, 2017, current accounts of legal entities in the amount of UAH 620 596 thousand (2015: UAH 121 102 thousand) were pledged as collateral under the documentary transactions of the Bank. As at December 31, 2017, term deposits of legal entities and individuals in the amount of UAH 454 110 thousand (2016: UAH 129 499 thousand) were pledged as collateral under the credit transactions of customers, including USD 13 673 thousand (UAH 383 749 in equivalent) placed by the Shareholder as cash cover deposit to secure indebtedness on non-performing loans. Pursuant to conditions of the agreement such cash cover may be converted to capital ahead of schedule, if parties agree required actions.

In accordance to Ukrainian legislation, the Bank is obliged to repay deposit in advance to an individual against provision of properly formalized claim, if deposit agreement allows repayment of deposit in advance.

Breakdown of amounts due to customers by maturity, interest rates and currency is given in Note 26.

17. Debt securities issued

As of December 31, 2017, debt securities are short-term savings (deposit) certificates to individuals for UAH 9 993 thousand (2016: UAH 136 354 thousand) equivalent to USD 294 thousand, EUR 52 thousand (2016: USD 4 452 thousand, EUR 538 thousand).

	2017	*2016*
Deposit certificates, issued in USD	8 240	121 049
Deposit certificates, issued in EUR	1 753	15 305
Issued deposit certificates total	**9 993**	**136 354**

The breakdown of debt securities issued by the Bank on maturity, interest rates and currency is disclosed in Note 26.

18. Other financial and non-financial liabilities

Other financial and non-financial liabilities as at December 31 include the following items:

	2017	*2016*
Other financial liabilities		
Balances on transit accounts on transactions with payment cards	62 123	37 187
Accrued costs	17 007	5 383
Balances on transit accounts on transactions with customers	2 119	8 866
Amounts payables on transactions with financial instruments	701	-
Derivative financial liabilities	-	5 558
Balances of transit accounts on transactions with banks	-	3 382
Other	3 008	2 083
Other financial liabilities	**84 958**	**62 786**
Other liabilities		
Accrued payments on unused vacations	14 481	9 846
Amounts payable to Individuals' Deposit Guarantee Fund	9 917	13 152
Obligations on payments of taxes and mandatory payments, other than income tax	6 193	9 500
Amounts payable on purchased assets, rendered services	2 835	2 903
Deferred income	1 356	4 274
Salary accruals to employees	215	1 163
Other non-financial liabilities	**34 997**	**40 838**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

19. Equity

Changes in the Bank's shares issued, fully paid and outstanding are:

	Number of shares	*Nominal value*		
	Ordinary	*Ordinary*	*Inflation adjustment*	*Total*
January 1, 2016	**835 000 000**	**835 000**	**23 666**	**858 666**
Share issue	686 000 000	686 000	-	**686 000**
December 31, 2016	**1 521 000 000**	**1 521 000**	**23 666**	**1 544 666**
December 31, 2017	**1 521 000 000**	**1 521 000**	**23 666**	**1 544 666**

The nominal value of the ordinary shares is UAH 1.00 per share as at December 31, 2017 and 2016. The inflation adjustment to share capital was made to account for the hyperinflation effect in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies and the Bank's accounting policy.

All ordinary shares are fully paid and have equal voting, dividend and capital repayment rights. The Bank declared no dividends during 2017 and 2016, as well as 2018 before the date of approval of these financial statements.

On June 21, 2017 the Bank's Shareholder took decision on increase of the Bank's share capital by UAH 1 199 000mln through private placement of shares of existing nominal value and completed payment for issued shares, accounted as Unregistered contribution to share capital.

In December 2015, the Bank's Shareholder have decided to increase the share capital of UAH 686 000 thousand to UAH 1 521 000 thousand. During 2016 cash contributions to share capital increase were fully paid. In April 2016, the Bank's Shareholder made a decision to amend the charter of the Bank, under which the share capital comprised UAH 1 521 000 thousand.

Revaluation reserves and changes in the reserve comprise:

	Revaluation reserve of buildings	*Revaluation reserve of securities available-for-sale*	*Total Revaluation reserve*
January 1, 2016	**96 447**	**-**	**96 447**
Revaluation of buildings	1 246	-	**1 246**
December 31, 2016	**97 693**	**-**	**97 693**
Reclassification in capital	(272)	-	(272)
Revaluation of securities held-for-sale	-	629	629
December 31, 2017	**97 421**	**629**	**98 050**

20. Commitments and contingencies

Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. As of December 31, 2017 the Bank is counterpart on several suits on collection of funds. UAH 310 thousand were seized as a security of lawsuit claims.

Changes in provisions for other non-financial liabilities comprise:

	2017	*2016*
At January 1	**-**	**-**
Charge / (Recovery) of provision	1 069	-
Use of charged provisions	(773)	-
Foreign currency differences	14	-
At December 31	**310**	**-**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Taxation and compliance with laws

The Ukrainian legislation applicable to taxation and other operational matters continue to change. The legislation and regulatory acts are not always clearly written and their interpretation is subject to varying interpretations by local, regional and national authorities and other governmental bodies. Instances of inconsistent interpretations by different bodies are not unusual. Management believes that the Bank has complied with all regulations and paid or accrued all taxes that are applicable.

In the reporting year the State Tax Inspection completed the complex inspection on compliance with requirements of the tax and foreign currency legislation and payment of social security contribution. The inspection didn't reveal material breaches of tax legislation and differences in interpretation of Tax Code guidelines important for taxation of the Bank.

There is a risk, that transactions and correctness of interpretations, which were not disputed by the regulating authorities in the past, will be disputed in future. However, this risk is declining in course of time. Determination of amounts and probability of negative consequences from possible unrealized actions is unreasonable.

Commitments and contingencies

Revocable credit commitments and contingencies as at December 31 are:

	2017	*2016*
Guarantees	360 100	195 591
Avals	677	230
	360 777	**195 821**
Cash collateral pledged for letters of credit and guarantees	(104 063)	(88 804)
Provision for losses on credit related commitments	(1 020)	(327)
Commitments and contingencies	**255 694**	**106 690**

As of December 31, 2017 the Bank has commitments to make risk-free settlements on letter of credits, as these settlements have cash cover in the amount UAH 516 533 thousand. (2016: UAH 32 298 thousand).

As at December 31, 2017, The Bank's loan facilities undrawn by customers amounted to UAH 2 624 225 thousand (2016: UAH 2 256 538 thousand). Requests of customers on drawing such facilities are subject to mandatory consent procedure established by the Bank, and the Bank may decline in providing a loan if potential borrower deteriorates his financial standing, or if the customer does not comply with the required loan-related procedures or due to other reasons.

The changes on provisions for losses on credit related commitments are:

	2017	*2016*
January 1	**327**	**1 094**
Charge to/(Decrease of) provision	694	(872)
Translation differences	(1)	105
December 31	**1 020**	**327**

All the operating lease commitments of the Bank are revocable.

Assets pledged and restricted assets

As at December 31, 2017, guarantee deposits due from banks are disclosed in Note 8.

The Bank's assets were not in pledge as of December 31, 2017.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

21. Interest income and expenses

Interest income and expenses for the year are:

	2017	*2016*
Interest income		
Loans to customers	634 975	501 015
- legal entities	503 122	429 024
- individuals	131 853	71 991
Securities	86 791	40 305
Amounts due from banks	2 113	2 411
	723 879	**543 731**
Interest expenses		
Amounts due to customers	(575 770)	(698 649)
- legal entities	(189 224)	(191 061)
- individuals	(386 546)	(507 588)
Debt securities issued	(6 958)	(13 511)
Amounts due to banks	-	(44 921)
Subordinated debt	-	(65)
	(582 728)	**(757 146)**
Net interest income	**141 151**	**(213 415)**

22. Net fee and commission income

Net fee and commission income for the year are:

	2017	*2016*
Fee and commission income		
Transactions with payment cards	71 477	63 972
Payments settlements	57 389	57 428
Foreign currency exchange transactions	39 152	19 898
Guarantees and letters of credit	8 212	4 138
Depositary activities	1 205	1 514
Safe rent services	626	1 498
Services to insurance companies	104	335
Other	904	664
	179 069	**149 447**
Fee and commission expenses		
Transactions with payment cards	(38 644)	(33 403)
Payments settlements	(18 426)	(15 126)
Loyalty program fees	(9 028)	(9 081)
Guarantees and letters of credit	(569)	(861)
Other	(613)	(6)
	(67 280)	**(58 477)**
Net fee and commission income	**111 789**	**90 970**

23. Other income

	2017	*2016*
Income from operational lease	8 150	6 744
Services to insurance companies	3 588	-
Penalties, fines received	2 281	581
Income from sale of assets held-for-sale	1 426	1 787
Reimbursement of costs on debt collection	822	1 165
Income from retirement of fixed assets	13	1 149
Revaluation of non-current assets held-for-sale	-	321
Other	2 527	1 611
	18 807	**13 358**

24. Administrative and other operating expenses

	2017	*2016*
Personnel expenses	254 386	201 397
Contributions to the Individuals' Deposits Guarantee Fund	48 425	51 332
Rent	41 078	27 686
Debt collection expenses	30 617	23 746
Utilities and household expenses	28 274	23 074
Professional services	19 373	21 283
Communication services	16 326	14 906
Amortization of property, equipment and intangible assets	17 878	14 204
Marketing and advertising	14 603	12 930
Maintenance of property, plant and equipment	10 591	9 352
Business trip expenses	4 308	4 430
Taxes and others mandatory payments other than income tax	4 275	4 115
Cash collection services	3 525	2 929
Losses from impairment of non-current assets	1 119	4 145
Other	3 494	4 095
Administrative and other operating expenses	**498 272**	**419 624**

In January of the reporting year the Bank concluded long-term agreement on lease of office property to relocate its own head office. The agreement provides the special period with reduced rate for completion of preparatory and decoration works, however this statement recognizes rent expenses envisaged by conditions of the rent agreement, on direct method based on lease term and starting from the date of the lease agreement.

25. The basic and diluted profit/ (loss) per share

The basic and diluted profit/ (loss) per share is:

	2017	*2016*
Profit/ (Loss) for the year	(570 237)	(556 590)
Average annual number of outstanding ordinary shares (thousand)	1 521 000	1 236 104
Net basic and diluted profit/ (loss) per share	(0.37)	(0.45)

During 2017 and 2016, the Bank had no financial instruments, which would result in a dilution of loss per share in the event of their conversion to shares.

The Shareholder of the Bank took resolution on increase of the capital by UAH 1 199mln by private placement of additional shares of existing nominal value on June 21, 2017 and completed payment for issued shares as of December 31, 2017.

During 2016 additional issue of ordinary shares was implemented pursuant to the adopted in December 2015 decision of the Shareholder in the amount of UAH 686,000 thousand. On 31 December 31, 2016 the shares were fully paid.

26. Financial risk management policies

Risks are inherent in the Bank's activities but they are managed through a process of ongoing identification, measurement and monitoring, establishing of the risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for managing the risk exposures within his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process is not applied to following business risks such as changes in the environment, technology and industry. They are controlled through the Bank's strategic planning process.

Risk management framework

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and provisions for residual risk, to implement controls and to continuously monitor risk levels and adherence to risk limits.

The risk management functions are divided among the Supervisory Board, the Management Board, Assets and Liabilities Management Committee (the "ALCO"), Committee of information security and operational-technological risks, departments that are by their functions designed to manage the Bank's risks, and the Credit Committees of different levels and other collegial bodies.

The risk management functions within the Bank are divided as follows:

Supervisory Board

The Supervisory Board, including Risk Committee of Supervisory Board is responsible for establishing overall approach to risk management, and the approval of risk management strategy and principles.

Management Board

The Management Board implements and controls risk management process in the Bank. The Management Board's risk management function comprises development of risk management strategy, as well as the implementation of principles, concept, polices, and risk limits.

Risk management, Corporate and retail businesses risks management

The above said departments exercise an analytical and methodological function in risk management and are responsible for establishment of risk management procedures for the independent control purposes.

Committees

The Large and Small Credit Committees, the ALCO, Committee of information security and operational-technological risks, the Budget Committee and the Tariff Committee are responsible for implementation of the risk management strategy.

Business Units

Each business unit has a separate independent risk control function, including control over adherence to the limits of the risk exposures and assessment of risks attributable to new products and structured transactions. In addition, business units are responsible for collecting the risk-related complete, reliable and operating information and risk reporting.

Internal Audit

The Internal Audit and Control Department performs regular audits of the risk management processes in order to review the adequacy of the risk management procedures and their execution. The Internal Audit and Control Department discusses findings from its audits and presents its conclusions and recommendations to the Supervisory and Management Boards.

Excessive risk concentration

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

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines focused on portfolio diversification. Identified risk concentrations are controlled and managed accordingly.

Credit risk

Credit risk is the risk of a financial loss to the Bank if a borrower or counterparty fails to meet its contractual obligations. The Bank manages its credit risk by establishing risk (limits) in relation to a single counterparty or groups of counterparties with similar business risks, and by monitoring adherence to established risk indicators.

Risks inherent in credit related commitments (commitments on unused irrevocable credit lines, letters of credit and guarantees) are similar to risks inherent in loans; they are mitigated using the same procedures and risk control policies.

The carrying amount of the items presented in the statement of financial position including derivative instruments and excluding the risk mitigation effect of master netting and collateral agreements corresponds the most closely to the maximum credit risk arising from these items.

The carrying amount of financial instruments carried at fair value reflects the current exposure to credit risk but not the maximum risk exposure, which may arise in future as a result of the changes in their values.

Credit quality by classes of financial asset

The Bank manages the credit quality of financial assets using its internal credit rating system. The system ensures focused risk management as well as it allows for credit risk exposure comparison by business lines, geographic location and product. The rating system is based on application of certain financial and analytical methods as well as use of observable market data, which represents main source of information for counterparty's risk assessment.

The Bank's management assesses the impairment of loans to customers by evaluating the likelihood of repayment and reimbursement of the amounts advanced based on the analysis of the specific borrowers by the specific significant loans as well as by the groups of loans with the similar terms and risk characteristics. The factors taken into account in evaluating the specific loans include the debt service history, the borrower's current financial position, timeliness of repayments and quality of collateral, schedule of future interest payments, the borrower's industry conditions, etc. In assessing the amount of impairment, the management takes into account the expected future principal and interest repayments as well as the proceeds from the sale of collateral, if any. Further, these cash flows are discounted using the original effective interest rate of the loan. The actual repayment of the loan principal and interest depends on the borrowers' ability to generate cash flows from their operations or to obtain alternative financing and may differ from the management's estimates.

The factors taken into account when assessing collective impairment include the historical impairment loss experience, portfolio delinquencies and general economic conditions.

Detailed information on quality of the Bank's active operations is disclosed in Note 8 Amounts due from banks providing structure of these high liquid assets in terms of ratings of the Bank's counterparties; in Note 9 Loans and advances to customers providing detailed information on impairment level of some asset groups.

The Bank developed procedure of loan portfolio quality monitoring to enable early detection of possible changes in creditability of counterparties, including periodic revision of collateral size. The monitoring procedure for credit quality helps the Bank to evaluate the volume of potential losses from inherent risks and take measures.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The geographic concentration of financial assets and liabilities is as follows:

	2017				***2016***			
	Ukraine	***OECD***	***CIS and other countries***	***Total***	***Ukraine***	***OECD***	***CIS and other countries***	***Total***
Assets								
Cash and cash equivalents	445 384	988 560	25	**1 433 969**	354 309	430 708	1 832	**786 849**
Amounts due from banks	12 839	468 604	5 411	**486 854**	14 308	91 717	35 926	**141 951**
Loans and advances to customers	4 118 795	-	187	**4 118 982**	4 000 583	-	1 053	**4 001 636**
Securities available-for-sale	279 874	-	-	**279 874**	441	-	-	**441**
NBU deposit certificates held-to-maturity in the Bank's portfolio	1 001 196	-	-	**1 001 196**	1 000 656	-	-	**1 000 656**
Other financial assets	5 867	-	63	**5 930**	36 613	-	17	**36 630**
	5 863 955	**1 457 164**	**5 686**	**7 326 805**	**5 406 910**	**522 425**	**38 828**	**5 968 163**
Liabilities								
Amounts due to banks	-	-	46	**46**	-	-	45	**45**
Amounts due to customers	7 927 087	5 033	404 440	**8 336 560**	7 392 849	32 443	16 994	**7 442 286**
Debt securities issued	9 993	-	-	**9 993**	136 354			**136 354**
Subordinated debt	1 330	-	-	**1 330**	327	-	-	**327**
Other financial liabilities	84 632	298	28	**84 958**	59 041	3 418	-	**62 459**
	8 023 042	**5 331**	**404 514**	**8 432 887**	**7 588 571**	**35 861**	**17 039**	**7 641 471**
Net geographic concentration	**(2 159 087)**	**1 451 833**	**(398 828)**	**(1 106 082)**	**(2 181 661)**	**486 564**	**21 789**	**(1 673 308)**

Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the profitability at risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios are mainly held by the securities department and include positions arising from market making and own open position taking, together with financial assets and liabilities that are managed on a fair value basis.

The overall responsibility for market risk management is vested with the ALCO. The Risk Management Department is responsible for the development of detailed risk management guidelines (subject to review and approval by the Management Board and Supervisory Board) and for the day-to-day monitoring of the compliance with the guidelines.

Foreign currency risk

Currency risk is the risk that fluctuations in foreign exchange rates will affect the Bank's income or the value of its portfolios of financial instruments.

The Bank holds assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the existing or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and the internally developed methodology.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The policy with regard to open foreign currency positions is restricted by certain maximal exposure thresholds established under the Ukrainian statutory regulations; the NBU strictly monitors the compliance with the regulations on a daily basis.

Foreign currency position of the Bank on monetary assets and liabilities as at December 31, 2017 is:

	Ukrainian hryvnia	*US Dollar*	*Euro*	*Other*	*Total*
Assets					
Cash and cash equivalents	403 873	763 105	260 654	6 337	**1 433 969**
Amounts due from banks	1 047	409 820	70 957	5 030	**486 854**
Loans and advances to customers	1 332 318	2 646 846	139 818	-	**4 118 982**
Securities available-for-sale	385	279 489	-	-	**279 874**
NBU deposit certificates held-to-maturity in the Bank's portfolio	1001 196	-	-	-	**1 001 196**
Other monetary assets	3 890	1 582	419	39	**5 930**
Total assets	**2 742 709**	**4 100 842**	**471 848**	**11 406**	**7 326 805**
Liabilities					
Amounts due to banks	-	37	9	-	**46**
Amounts due to customers	4 303 872	3 453 047	569 584	10 057	**8 336 560**
Debt securities issued	-	8 240	1 753	-	**9 993**
Provisions for liabilities	1 139	-	191	-	**1 330**
Other financial liabilities	70 595	7 626	6 726	11	**84 958**
Total monetary liabilities	**4 375 606**	**3 468 950**	**578 263**	**10 068**	**8 432 887**
Net long /(short) balance sheet position	**(1 632 897)**	**631 892**	**(106 415)**	**1 338**	**(1 106 082)**
Off-balance sheet position	-	-	-	-	**-**
Net long /(short) currency position	**(1 632 897)**	**631 892**	**(106 415)**	**1 338**	**(1 106 082)**

Foreign currency position of the Bank on monetary assets and liabilities as at December 31, 2016 is:

	Ukrainian hryvnia	*US Dollar*	*Euro*	*Other*	*Total*
Assets					
Cash and cash equivalents	287 827	156 808	336 526	5 688	**786 849**
Amounts due from banks	-	105 941	19	35 991	**141 951**
Loans and advances to customers	987 856	2 714 530	299 250	-	**4 001 636**
Securities available-for-sale	441	-	-	-	**441**
NBU deposit certificates held-to-maturity in the Bank's portfolio	1 000 656	-	-	-	**1 000 656**
Other monetary assets	31 596	4 278	417	339	**36 630**
Total assets	**2 308 376**	**2 981 557**	**636 212**	**42 018**	**5 968 163**
Liabilities					
Amounts due to banks	-	37	8	-	**45**
Amounts due to customers	4 024 400	2 712 578	666 536	38 772	**7 442 286**
Debt securities issued	-	121 049	15 305	-	**136 354**
Provisions for liabilities	327	-	-	-	**327**
Other financial liabilities	44 256	9 574	7 771	858	**62 459**
Total monetary liabilities	**4 068 983**	**2 843 238**	**689 620**	**39 630**	**7 641 471**
Net long /(short) balance sheet position	**(1 760 607)**	**138 319**	**(53 408)**	**2 388**	**(1 673 308)**
Off-balance sheet position	657 900	(652 581)	-	-	**5 319**
Net long /(short) currency position	**(1 102 707)**	**(514 262)**	**(53 408)**	**2 388**	**(1 667 989)**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

As at December 31, a 10 percent depreciation of the Ukrainian hryvnia against the following currencies would have had increased (decreased) pre-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular, interest rates, remain constant:

	2017	***2016***
US Dollar	63 189	(51 426)
Euro	(10 642)	(5 341)

As at December 31, a 10 percent appreciation of the Ukrainian hryvnia against the above currencies would have had an equal but opposite effect on the pre-tax profit in the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect future cash flows or fair value of financial instruments.

Interest rate risk is measured by the extent to impact of changes in market interest rates on interest margin and net interest income. To the extent the maturity structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, the Bank continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, the Bank resets interest rates on both assets and liabilities based on current market conditions and mutual consent with its counterparties by formal amending the original agreements and setting forth the new interest rate.

The ALCO of the Bank are responsible for interest rate risk management. The ALCO establishes the principal guidelines and approaches to interest rate risk management, including maximum loan and minimum borrowing rates by products, classes of customers and maturities. The Bank manages interest rate risk using the gap analysis method, whereby the difference or gap between assets and liabilities sensitive to interest rate fluctuations is determined and analysed.

The average effective interest rates of the major interest bearing assets and liabilities are:

	December 31, 2017			***31 December 31, 2016***		
	Ukrainian hryvnia	***US Dollar***	***Euro***	***Ukrainian hryvnia***	***US Dollar***	***Euro***
Loans and advances to customers	21.1%	14.1%	9.3%	20.6%	11.2%	11.3%
Securities available-for-sale	-	5.2%	-	-	-	-
Deposit certificates of the National Bank of Ukraine	13.1%	-	-	12.0%	-	-
Current accounts of customers	7.2%	1.2%	2.1%	6.2%	1.6%	0.4%
Term deposits of customers	14.6%	4.6%	3.3%	18.8%	7.8%	7.3%
Debt securities issued	-	7.2%	7.0%	-	7.6%	2.4%

If market environment changes, the Bank's management, under the terms of the loan agreements, has the right to change interest rates on loans to customers. Moreover, the Bank regularly revises interest rates on amounts due to customers depending on market structure. The Bank calculates the absolute interest risk or changes in net interest income under the scenario of parallel shift in the yield curve. As at December 31, 2017 increase in interest rates by 1%, with all other variables remained constant, would decrease net interest income for the year by UAH 3 296 thousand (2016: decrease by UAH 5 852 thousand). A 1% decrease in interest rates would have had an equal but opposite effect on the net interest income by the amount shown above, on the basis that all other variables remain constant.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Liquidity risk

Liquidity risk arises in the course of general funding activities as well as from management of open positions. It includes both the risk of being unable to raise the funding with appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in a due time as well as the risk of the Bank’s failure to meet its obligations when due in normal course of business or under unforeseen circumstances.

Management’s approach to managing liquidity is to ensure that the Bank has reasonably sufficient liquidity to meet its liabilities when due, under both normal conditions and extraordinary circumstances, without incurring unjustifiable losses or damaging the Bank’s reputation.

The Bank actively keeps a diversified and stable funding sources comprising of debt securities issued, long-term and short-term loans from other banks, core corporate and retail customer deposits, as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions, buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, buys and sells securities, regulates its interest rate policy and controls expenses. In managing its liquidity, the Bank considers the obligatory reserve placement requirements set by the NBU, depending on the level of finds deposited by the customers.

The Bank has to comply with the mandatory liquidity ratios set by the NBU, including by the Action Plan on elimination of breaches of economic ratios approved by the decision of the Bank’s Shareholder and by the resolution of the Board of the National Bank of Ukraine on a daily basis.

Liabilities repayable on demand are treated as if redemption claim would have been made at the earliest date possible. However, the Bank expects that majority of the customers will not claim for redemption at such earliest possible date and, consequently, the table does not reflect expected cash flows calculated by the Bank based on the information on deposits redemption in past periods.

The Bank’s undiscounted financial liabilities grouped by their residual contractual maturities and other undiscounted cash outflows as at December 31, 2017 are:

	Up to 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to banks	46	-	-	-	**46**
Amounts due to customers	4 766 450	3 233 268	51 233	383 749	**8 434 690**
Debt securities issued	9 743	364	-	-	**10 108**
Provisions for liabilities	1 330	-	-	-	**1 330**
Other financial liabilities	84 958	-	-	-	**84 958**
Undiscounted cash outflow	**4 862 527**	**3 233 632**	**60 001**	**383 749**	**8 531 131**

The category “Up to 3 months” above also includes amounts on demand.

The table below presents a consolidated analysis of the contractual maturities of financial liabilities as at December 31, 2017. The table shows undiscounted liabilities repayable according to the contract. Payments made to notice are deemed to be paid immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay under the agreement, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history. In addition, a significant portion of current accounts estimated by management, as conventionally remains stable. The maturity analysis does not reflect the historical stability of current liabilities in the past. Previously, their implementation took place during the period that is higher than indicated in the table above. These balances are included in the table above as payment amounts due during the period of up to 3 months.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The Bank's undiscounted financial liabilities grouped by their residual contractual maturities and other undiscounted cash outflows as at December 31, 2016 are:

	Up to 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to banks	45	-	-	-	**45**
Amounts due to customers	4 545 178	2 889 414	110 900	-	**7 545 492**
Debt securities issued	101 169	37 456	-	-	**138 625**
Provisions for liabilities	327	-	-	-	**327**
Other financial liabilities	62 459	-	-	-	**62 459**
Undiscounted cash outflow	**4 709 178**	**2 926 870**	**110 900**	**-**	**7 746 948**

The category "Up to 3 months" above also includes amounts on demand.

Maturities of assets and liabilities and possibility of replacement of interest-bearing liabilities with the same maturity at reasonable price are important factors of assessment of the Bank's liquidity and risk stemming from changes in interest rates and exchange rates.

Payment periods on financial assets and liabilities, net of allowance for impairment, as at December 31, 2017 are:

	Up to 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Assets					
Cash and cash equivalents	1 433 969	-	-	-	**1 433 969**
Amounts due from banks	311 615	175 239	-	-	**486 854**
Loans and advances to customers	215 006	1 487 407	2 415 461	1 108	**4 118 982**
Securities available-for-sale	-	139 163	140 326	385	**279 874**
NBU deposit certificates held-to-maturity in the Bank's portfolio	1 001 196	-	-	-	**1 001 196**
Other financial assets	5 930	-	-	-	**5 930**
Total assets	**2 967 716**	**1 801 809**	**2 555 787**	**1 493**	**7 326 805**
Liabilities					
Amounts due to banks	46	-	-	-	**46**
Amounts due to customers	4 710 777	3 192 364	49 670	383 749	**8 336 560**
Debt securities issued	9 421	572	-	-	**9 993**
Provisions for liabilities	1 330	-	-	-	**1 330**
Other financial liabilities	84 958	-	-	-	**84 958**
Total liabilities	**4 806 532**	**3 192 936**	**49 670**	**383 749**	**8 432 887**
Liquidity gap for the period	(1 838 816)	(1 391 127)	2 506 117	(382 256)	**(1 106 082)**
Cumulative liquidity gap	**(1 838 816)**	**(3 229 943)**	**(723 826)**	**(1 106 082)**	

The category "Up to 3 months" above also includes amounts on demand.

The Bank's liquidity risk management includes assessment of balances on current accounts, which are considered as stable funds. As of December 31, 2017, stable customer funds reached UAH 3 655 928 thousand (2016: UAH 3 269 078 thousand). As of December 31, 2017, the excess of short-term assets over short-term liabilities of the Bank, calculated taking into account the stable clients' funds with uncertain maturity, totaled UAH 425 985 thousand (2016: UAH 88 655 thousand).

The table demonstrates loans and amounts due from clients including overdue indebtedness apart from formed reserves. However, overdue indebtedness is allocated to maturity period of 1-5 years in accordance to judgement of the Bank regarding possible terms of its collection. The table demonstrates financial obligations to be redeemed in accordance to a contract. Repayments, to be made at receipt of notice, are deemed as subject to immediate payment. However, the Bank expects that many customers will not request repayment on the date the Bank could have made the payment under the agreement and the table does not reflect the expected cash flows indicated by the Bank's deposits held in past periods. In addition, the management estimates a significant portion of balances on current accounts, as relatively stable balances. The maturity analysis does not reflect the historical stability of current liabilities in the past. Previously, their disposal happened during the period, which is longer than indicated in the table above. These balances are included in the table above, as amounts due to be paid in the period of up to 3 months.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Payment periods on financial assets and liabilities, net of allowance for impairment, as at December 31, 2016 are:

	Up to 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Assets					
Cash and cash equivalents	786 849	-	-	-	**786 849**
Amounts due from banks	141 951	-	-	-	**141 951**
Loans and advances to customers	442 163	1 777 421	1 781 008	1 044	**4 001 636**
Securities available-for-sale	-	-	-	441	**441**
NBU deposit certificates held-to-maturity in the Bank's portfolio	1 000 656	-	-	-	**1 000 656**
Other financial assets	36 630	-	-	-	**36 630**
Total assets	**2 408 249**	**1 777 421**	**1 781 008**	**1 485**	**5 968 163**
Liabilities					
Amounts due to banks	45	-	-	-	**45**
Amounts due to customers	4 553 365	2 790 853	98 068	-	**7 442 286**
Debt securities issued	100 109	36 245	-	-	**136 354**
Provisions for liabilities	327	-	-	-	**327**
Other financial liabilities	62 459	-	-	-	**62 459**
Total liabilities	**4 716 305**	**2 827 098**	**98 068**	**-**	**7 641 471**
Liquidity gap for the period	(2 308 056)	(1 049 677)	1 682 940	1 485	**(1 673 308)**
Cumulative liquidity gap	**(2 308 056)**	**(3 357 733)**	**(1 674 793)**	**(1 673 308)**	

The category "Up to 3 months" above also includes amounts on demand.

In accordance with the Ukrainian legislation and contractual terms of the loans, the Bank has the right to demand the repayment of loans from customers prior to their contractual maturity if the borrowers' financial position deteriorates, or if the borrowers do not fulfill their contractual obligations as well as in some other cases.

Operating risk

Operating risk is the risk arisen as a result of the system error, human errors, fraud or external events. Where the control system malfunctions, the operating risks can damage the reputation and have legal implications or lead to financial losses. The Bank cannot assume that all operating risks are eliminated, however, by applying internal controls and by keeping track and responding to the potential risks, the Bank can manage such risks. The control system provides effective distribution of duties, access rights, approval and reconciliation procedures, personnel training as well as assessment procedures, including internal audit.

27. Related party disclosures

The Bank grants loans to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions. Terms of transactions with related parties are established at the time of transaction.

Related parties comprise the Shareholder of the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by the Shareholder, by key management personnel or by their close family members. The key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and include the members of the Management Board and the Supervisory Board.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Entities are not considered to be related, only because they have a director or other member of key management personnel common with the Bank or because a member of key management personnel has a significant impact on the other entity.

Management of the Bank believes that the terms of transactions with related parties were similar to those offered to non-related parties.

The Bank’s transactions with the related parties and balances with related parties as at December 31, 2017:

	Parent company	***The largest members (shareholders) of the Bank***	***Companies under joint control***	***Key management personnel***	***Associated companies***	***Other related parties***	***Total***
Loans to customers (contractual interest rates: UAH – 47.4%)	-	-	-	7	-	31	**38**
Securities available-for-sale (10-12% share)	-	-	-	-	13	-	**13**
Provision for impairment of securities available-for-sale	-	-	-	-	(13)	-	**(13)**
Other financial assets	-	-	42	-	-	-	**42**
Amounts due to customers (contractual interest rates: UAH – 7.8%, USD –0.1%, EUR – 0.6%)	384 449	11 289	571 191	4 184	-	9 787	**980 900**
Other liabilities	-	-	21	-	-	-	**21**

The Bank’s transactions with the related parties and balances with related parties as at December 31, 2016:

	Parent company	***The largest members (sharehold ers) of the Bank***	***Companies under joint control***	***Key management personnel***	***Associated companies***	***Other related parties***	***Total***
Loans to customers (contractual interest rates: UAH – 44.9%)	-	-	-	30	-	-	**30**
Securities available-for-sale (10-12% share)	-	-	-	-	13	-	**13**
Provision for impairment of securities available-for-sale	-	-	-	-	(13)	-	**(13)**
Other financial assets	-	-	1	-	-	-	**1**
Amounts due to customers (contractual interest rates: UAH – 4.0%, USD – 2.5%; EUR – 3.7%)	759	16 525	29 118	2 431	-	11 680	**60 513**
Other liabilities	2	-	180	-	-	-	**182**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The Bank's transactions with the related parties for the period ended December 31, 2017:

	Parent company	*The largest members (shareholders) of the Bank*	*Companies under joint control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Interest income	-	-	229	1	-	-	**230**
Interest expense	(3)	(159)	(23 595)	(162)	-	(291)	**(24 210)**
Commission income	600	4	8 542	79	-	12	**9 237**
Net gain from FX operations	3 264	-	8 651	-	-	-	**11 915**
Administrative and other operational income	-	-	-	(58 814)	-	-	**(58 814)**

The Bank's transactions with the related parties for the period ended December 31, 2016:

	Parent company	*The largest members (shareholders) of the Bank*	*Companies under joint control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Interest income	-	-	-	2	-	12	**14**
Interest expense	(73)	(211)	(663)	(217)	-	(471)	**(1 635)**
Commission income	461	-	96	72	-	45	**674**
Net gain from FX operations	38 463	-	58	-	-	-	**38 521**
Recovery of provision for impairment of loans and amounts due from clients	-	-	-	1	-	17	**18**
Administrative and other operational income	-	-	-	(52 897)	-	-	**(52 897)**

Other rights and obligations on transactions with related parties as of December 31, 2017:

	Parent company	*The largest members (shareholders) of the Bank*	*Companies under joint control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Potential credit commitments (revocable)	-	-	-	53	-	19	**72**

Other rights and obligations on transactions with related parties as of December 31, 2016:

	Parent company	*The largest members (shareholders) of the Bank*	*Companies under joint control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Potential credit commitments (revocable)	-	-	-	291	-	150	**441**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The total amount of loans received and repaid by related parties within the period ended on December 31, 2017:

	Parent company	***The largest members (shareholders) of the Bank***	***Companies under joint control***	***Key management personnel***	***Associated companies***	***Other related parties***	***Total***
Amount of loans received by related parties	-	-	481 577	159	-	46	**481 782**
Amount of loans repaid by related parties	-	-	(481 577)	(182)	-	(15)	**(481 774)**

The total amount of loans received and repaid by related parties within the period ended on December 31, 2016:

	Parent company	***The largest members (shareholders) of the Bank***	***Companies under joint control***	***Key management personnel***	***Associated companies***	***Other related parties***	***Total***
Amount of loans received by related parties	-	-	-	628	-	-	**628**
Amount of loans repaid by related parties	-	-	-	613	-	88	**701**

The remuneration of the key management personnel for the year ended December 31, 2017 is represented by short-term employee benefits amounting to UAH 46 030 thousand (2015: UAH 40 513 thousand). The remuneration of Supervisory Board members for the year ended December 31, 2017 amounted to UAH 10 035 thousand (2015: UAH 10 365 thousand).

28. Segment reporting

For management purposes, the Bank is organized into three operating segments:

Corporate banking. Providing loans, opening deposits and serving current accounts of legal entities and institutional customers, providing guaranties and avals, opening a letters of credit, supporting foreign economic activity.

Retail banking. Serving deposits of individuals', and providing consumer loans, overdrafts, credit card and fund transfer services.

Investment banking. Trade transactions with securities and foreign currency, transactions with derivative instruments, attraction and placement of funds on interbank market, investments to other financial instruments.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The information on income and expenses as well as assets and liabilities of the Bank's operating segments for the year ended December 31, 2017 is:

	Corporate banking	*Retail banking*	*Investment banking*	*Unallocated*	*Total*
External customers					
Interest income	503 122	131 853	88 904	-	**723 879**
Fee and commission income	86 422	92 369	278	-	**179 069**
Result from transactions with available-for-sale securities	-	-	113	-	**113**
Net income/ (loss) from transactions with derivative instruments	-	-	29 621	-	**29 621**
Net gains/(losses) arising from foreign currencies	-	-	78 919	19 289	**98 208**
Result from the revaluation of investment property	-	-	-	(61 084)	**(61 084)**
Other income	-	-	-	18 807	**18 807**
	589 544	**224 222**	**197 835**	**(22 988)**	**988 613**
Interest expenses	(189 224)	(393 504)	-	-	**(582 728)**
Fee and commission expenses	(1 222)	(46 694)	(19 364)	-	**(67 280)**
Recovery of / (Charge to) provision for impairment of loans and advances to customers and amounts due from banks	(317 686)	(41 878)	514	-	**(359 050)**
Recovery of / (Charge to) provision for impairment of securities	-	-	(74)	-	**(74)**
Recovery of / (Charge to) provision for impairment of other financial and non-financial assets	(3 886)	-	199	(46 099)	**(49 786)**
Recovery of / (Charge to) provision for impairment of liabilities	(694)	(1 069)	-	-	**(1 763)**
Administrative and other operating expenses	(79 661)	(168 547)	(17 460)	(232 604)	**(498 272)**
Segment results	**(2 829)**	**(427 470)**	**161 650**	**(301 691)**	**(570 340)**
Income tax benefit	-	-	-	103	**103**
Profit/(loss) for the year	**(2 829)**	**(427 470)**	**161 650**	**(301 588)**	**(570 237)**
Segment assets	3 789 659	334 212	3 202 262	1 960 032	**9 286 165**
Segment liabilities	4 184 844	4 239 196	383	43 461	**8 467 884**

Unallocated net gains from transactions in foreign currencies represent the revaluation of foreign currency items in the statement of financial position, as well as other income not related to principal operating activities of the Bank. Other unallocated expenses represent general administrative expenses of the Bank and other expenses related to impairment of assets.

Management monitors the operating results of its business units separately for the purpose of making decisions about funds allocation and performance assessment. The segment results are determined differently to those presented in financial statements. Income tax management is performed under general conditions and are not allocated to the operating segments.

In 2017 the Bank recognized interest income on loan of a client – legal entity in the amount of UAH 143 304 thousand, which totaled more than 10% of the Bank's total revenue, (2016: didn't received income from one client in the amount of 10% and more of total revenue). This fact is not evidence of material dependence from such a client, as interest income from previous periods in the amount of UAH 83 318 thousand was recognized in the reporting period after obtaining the court decision on cancellation of the decision declaring this client as a bankrupt. Decision on bankruptcy was previously the reason for suspension of interest income accrual according to the legislation.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The Bank operates in Ukraine and nearly all of its 2017 and 2016 revenues were earned from Ukrainian counterparties. As at December 31, 2017 all tangible assets of the Bank were located in Ukraine (2016: 100%), including on the territory of the ATO zone – 0.2% (2016: 0.2%), on the territory of Crimea – 0.8% (2015: 0.9%). The geographical concentration of financial assets and liabilities is presented in Note 26.

The information on income and expenses as well as assets and liabilities of the Bank's operating segments for the year ended December 31, 2016 is:

	Corporate banking	*Retail banking*	*Investment banking*	*Unallocated*	*Total*
External customers					
Interest income	429 024	71991	42 716	-	**543 731**
Fee and commission income	59 596	88316	1 535	-	**149 447**
Result from transactions with available-for-sale securities	-	-	1 531	-	**1 531**
Net income/ (loss) from transactions with derivative instruments	-	-	119 844	-	**119 844**
Net gains/(losses) arising from foreign currencies	-	-	79 278	(29 298)	**49 980**
Result from the revaluation of investment property	-	-	-	356 107	**356 107**
Other income	1 541	1 298	-	10 519	**13 358**
	490 161	**161 605**	**244 904**	**337 328**	**1 233 998**
Interest expenses	(187 601)	(521 098)	(48 447)	-	**(757 146)**
Fee and commission expenses	(910)	(42 576)	(14 991)	-	**(58 477)**
Recovery of / (Charge to) provision for impairment of loans and advances to customers and amounts due from banks	(543 256)	(102 436)	(506)	-	**(646 198)**
Other charges to provision for impairment	872	-	(24 345)	(3 397)	**(26 870)**
Administrative and other operating expenses	(58 447)	(155 661)	(11 491)	(194 025)	**(419 624)**
Segment results	**(299 181)**	**(660 166)**	**145 124**	**139 906**	**(674 317)**
Income tax benefit	-	-	-	117 727	**117 727**
Profit/(loss) for the year	**(299 181)**	**(660 166)**	**145 124**	**257 633**	**(556 590)**
Segment assets	3 853 476	174 567	1 948 233	1 894 922	**7 871 198**
Segment liabilities	2 930 008	4 714 520	9 029	28 752	**7 682 309**

29. Fair value measurement

The Bank applies the following hierarchic methods of measurement to determine and disclose the fair values of the financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, available as of the date of appraisal.
- Level 2: all input data of measurement models, having a material impact on fair values recognized in the financial statements, are based on observable market data, either directly or indirectly.
- Level 3: all input data of measurement models, having a material impact on fair values recognized in the financial statements, are not based on observable market data.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

The Bank did not have any movements between level 1 and 2 hierarchy levels as of December 31, 2017 or 2016.

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

		Fair value measurement using			
December 31, 2017	***Date of valuation***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value					
Other financial assets					
Derivative financial assets	31.12.2017	279 544	-	-	**279 544**
Fixed assets					
Buildings, facilities	01.11.2017	-	186 466	-	**186 466**
Investment property	01.11.2017-31.12.2017	-	1 335 439	-	**1 335 439**
Assets for which fair values are disclosed					
Cash and cash equivalents	31.12.2017	-	-	1 433 969	**1 433 969**
Amounts due from banks	31.12.2017	-	-	486 854	**486 854**
Loans and advances to customers	31.12.2017	-	-	4 118 982	**4 118 982**
Securities available-for-sale	31.12.2017	-	-	330	**330**
Deposit certificates of the NBU held-to-maturity	31.12.2017	-	-	1 001 196	**1 001 196**
Other financial assets	31.12.2017	-	-	5 930	**5 930**
Liabilities for which fair values are disclosed					
Amounts due to banks	31.12.2017	-	-	46	**46**
Amounts due to customers	31.12.2017	-	-	8 336 560	**8 336 560**
Debt securities issued	31.12.2017	-	-	9 993	**9 993**
Other financial liabilities	31.12.2017	-	-	84 958	**84 958**

Reconciliation of carrying value for periodic assessments of fair value of Level 3 securities available-for-sale for the year ended December 31 is:

	2017	***2016***
January 1	**441**	**441**
Charge to allowance for impairment	(74)	-
Revaluation recognized in other comprehensive income	19	-
Transfer to Level 1	(56)	-
December 31	**330**	**441**

The Bank made transfer from Level 3 to Level 1 as of the date of changes in circumstances resulting in change of financial investment value from value at cost to value at quotation prices.

The methods and assumptions used to determine fair value were following:

The management determined that fair value of funds, short-term financial assets and liabilities as well as other assets and liabilities approximately equals their carrying value, as the above instruments have short repayment period.

Fixed assets (buildings) and investment property The Bank engages independent appraisers to determine fair value of buildings and investment property, while the method of sales comparison is used based on prices of transactions with objects of similar character, location and state.

Securities available-for-sale. Securities available-for-sale primarily consist of actively traded debt securities and unquoted capital instruments, revalued by any valuation method (unquoted shares and equity interests). These assets are valued using models, which sometimes incorporate only data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and the geographical jurisdiction in which the investee operates.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

Derivatives. Derivatives, valued by the valuation methods using market observable inputs, mainly represent interest rate swaps, currency swaps and forward foreign exchange contracts. Appraisal methodology includes model of forward and swap pricing, providing discounting of revaluation results (calculations of present value). The model combines input data on forward and swap exchange rates.

Loans and amounts due from customers. The Bank evaluates loans and amounts due from clients, accounts receivable based on such parameters, as interest rates, risk factors, individual creditworthiness of borrower and forms allowance in reliance on the above evaluation for accounting of expected losses deriving from these assets.

Amounts due to customers. Fair value of amounts due to customers is defined by the method of discounted cash flow with use of discount rate reflecting cost of customers' funds for the Bank by the end of reporting period. The own credit risk of default on liabilities as of December 31, 2017 is evaluated as minor.

Fair value of assets and liabilities of the bank as of December 31, 2016:

		Fair value measurement using			
December 31, 2016	***Date of valuation***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value					
Other financial assets					
Derivative financial assets	31.12.2016	-	8 857	-	**8 857**
Fixed assets					
Buildings, facilities	01.11.2016	-	189 008	-	**189 008**
Investment property	01.11.2016	-	1 276 502	-	**1 276 502**
Assets for which fair values are disclosed					
Cash and cash equivalents	31.12.2016	-	-	786 849	**786 849**
Amounts due from banks	31.12.2016	-	-	141 951	**141 951**
Loans and advances to customers	31.12.2016	-	-	4 001 636	**4 001 636**
Securities available-for-sale	31.12.2016		-	441	**441**
Deposit certificates of the NBU held-to-maturity	31.12.2016			1 000 656	**1 000 656**
Other financial assets	31.12.2016	-	-	27 773	**27 773**
Liabilities at fair value					
Other financial liabilities					
Derivative financial liabilities	31.12.2016	-	5 558	-	**5 558**
Liabilities for which fair values are disclosed					
Amounts due to banks	31.12.2016	-	-	45	**45**
Amounts due to customers	31.12.2016	-	-	7 442 286	**7 442 286**
Debt securities issued	31.12.2016	-	-	136 354	**136 354**
Other financial liabilities	31.12.2016	-	-	57 228	**57 228**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

30. Presentation of financial instruments by assessment categories

Financial assets under assessment categories as at December 31, 2017:

	Loans and receivables	***Financial assets at fair value through profit or loss***	***Financial assets available-for-sale***	***Total***
Cash and cash equivalents	1 433 969	-	-	**1 433 969**
Amounts due from banks	486 854	-	-	**486 854**
Loans and advances to customers	4 118 982	-	-	**4 118 982**
Securities available-for-sale	-	-	279 874	**279 874**
Deposit certificates of the NBU held-to-maturity	1 001 196	-	-	**1 001 196**
Other financial assets	5 930	-	-	**5 930**
Total financial assets	**7 046 931**	**-**	**279 874**	**7 326 805**

Financial assets under assessment categories as at December 31, 2016:

	Loans and receivables	***Financial assets at fair value through profit or loss***	***Financial assets available-for-sale***	***Total***
Cash and cash equivalents	786 849	-	-	**786 849**
Amounts due from banks	141 951	-	-	**141 951**
Loans and advances to customers	4 001 636	-	-	**4 001 636**
Securities available-for-sale	-	-	441	**441**
Deposit certificates of the NBU held-to-maturity	1 000 656	-	-	**1 000 656**
Other financial assets	27 773	8 857	-	**36 630**
Total financial assets	**5 958 865**	**8 857**	**441**	**5 968 163**

31. Capital management

Regulatory capital

The Bank maintains an actively managed capital base to cover risks inherent in the business, to provide compliance with external capital requirements and to support high credit rating and capital adequacy ratios required for operations and maximizing wealth of shareholders. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord (approved in July 1988 and amended in November 2005, considering among other the inclusion of market risk) and the ratios established by the NBU in supervising the Bank.

The Bank manages its capital structure adjusting it in line with changes in the economic conditions and the risks attributable to its activities. The Bank did not make any changes in the objectives, policies and processes from the previous years.

(Thousands of Ukrainian hryvnias, unless otherwise stated)

NBU capital adequacy ratio

The NBU sets capital level requirements for banks and monitors their compliance. Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (the statutory capital adequacy ratio) above the established minimum level. If the Bank does not maintain or sufficiently increase its capital base in line with the increase in its risk-weighted assets, it may violate the set capital adequacy benchmarks, which could lead to the sanctions from the NBU side and could affect the results of operations and the financial position.

Following the capitalization program approved by the Supervisory Board on February 24, 2015 the Shareholder completed the planned actions on the Bank's capital increase within 2015-2016, in particular: capital was increased in April 2015 and in February 2016 by UAH 250 000 thousand and UAH 686 000 thousand respectively.

For the period until January 1, 2019, the National Bank of Ukraine set the schedule for increasing the minimum level of regulatory capital adequacy, namely as at October 1, 2016 at least 5%, as at January 1, 2018 - not less than 7% and as at January 1, 2019 - not less than 10%. On April 28, 2016 the National Bank of Ukraine approved the updated capitalization/restructuring program developed by the Bank in accordance with the schedule of increase in the minimum level of capital adequacy. Taking into account increase of capital by UAH 1 199mln in 2017 according to resolution dated June 21, 2017 and placement of cash cover deposit to secure indebtedness on non-performing loans in the amount USD 13 673 thousand the Bank fulfilled ahead of time capitalization program approved by the NBU.

Capital adequacy ratio under the Basel Capital Accord requirements

As at December 31 the Bank's capital adequacy ratio, calculated in accordance with the Basel Capital Accord, with subsequent amendments incorporating market risks, and on the basis of the amounts presented in these financial statements, comprised:

	2017	***2016***
Tier 1 capital		
Share capital	2 743 666	1 544 666
Accumulated loss	(2 041 113)	(1 471 148)
Additional paid-in capital	17 678	17 678
Total tier 1 capital	**720 231**	**91 196**
Tier 2 capital		
Revaluation reserve	98 050	97 693
Total tier 2 capital	**98 050**	**97 693**
Total regulatory capital	**818 281**	**188 889**
Total risk-weighted assets	**6 541 044**	**6 794 662**
Capital adequacy ratios		
Tier 1 capital adequacy ratio	**11.0%**	**1.3%**
Total capital adequacy ratio	**12.5%**	**2.8%**

(Thousands of Ukrainian hryvnias, unless otherwise stated)

As of December 31 capital adequacy ratio, calculated in accordance with requirements of the National Bank of Ukraine, comprised:

	2017	*2016*
Tier 1 capital		
Share capital	2 720 000	1 521 000
Accumulated loss	(2 061 985)	(1 516 493)
Additional paid-in capital	17 678	17 678
Total tier 1 capital	**675 693**	**22 185**
Tier 2 capital		
Revaluation reserve	95 984	97 693
Total tier 2 capital	**95 984**	**97 693**
Deductions from capital	**(330)**	**(330)**
Total regulatory capital	**771 347**	**44 040**
Total risk-weighted assets	**6 178 756**	**6 628 840**
Open foreign currency position	**729 978**	**587 774**
Capital adequacy ratios	**11.2%**	**0.61%**
Tier 1 capital adequacy ratio	**9.8%**	**0.31%**

In accordance with the Action Plan, the Bank should reach capital adequacy ratio, calculated pursuant to with requirements of the National Bank of Ukraine, at the level of 9.49% of risk-weighted assets by the end of 2017 (2016: 6.11%). As of December 31, 2017, the capital adequacy ratio of the Bank totaled 11.2% (2016: 0.61%).
On September 25, 2017, the Shareholder of the Bank completed payment for issued shares in the amount UAH 1 199 million (as of December 31, 2017 registration of capital increase in the National Bank is in progress).
In addition to capital increase the Shareholder placed cash on cover deposit securing indebtedness in the amount of USD 13 673mln resulting in increase of capital adequacy ratio above the minimum level established by the NBU.

32. Events after the reporting date

In the beginning of 2018 the Bank took decision to close 5 branches and to suspend operations at one aiming to improve efficiency of operation based on financial performance analysis for branch network. As of the date of the report the bank ceased operations at three branches and suspended operation in one branch.

In February 2018 the Bank moved to the software product – operational day of the Bank, which may positively influence automation of business processes of the Bank and quality of preparation of financial and statistical information.

Financial Director Sergiy Volkov

Chief Accountant Ruslan Chudakivskyi

April 27, 2018