BANK for INVESTMENTS and SAVINGS

PUBLIC JOINT STOCK COMPANY BANK FOR INVESTMENTS AND SAVINGS

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

Translated from Ukrainian original

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INDEPENDENT AUDITOR'S REPORT

To the:

Shareholders and Management Board of PJSC "BANK FOR INVESTMENTS AND SAVINGS"

OPINION

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

Judgments and estimates with respect to Loans and advances to customers

Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. We identified the issue of impairment of loans and advances to customers as key audit matters due to the materiality of the loan balances and the subjective nature of the impairment calculation.

We refer to the financial statements Note 4 for information on principal accounting policies, notes 8, 30 and 33 for disclosures.

The controls management established to support their collective and specific impairment calculations were tested during our audit procedures.

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For collective impairment, this included controls over the appropriateness of models used to calculate the charge, the process of determining key assumptions and the identification of loans to be included within the calculation. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, segmentation, economic factors and judgemental overlays, the period of historical loss rates used, and the valuation of recovery assets and collateral.

For specific allowances, the appropriateness of provisioning methodologies and policies was assessed for a sample of loans across the portfolio selected on the basis of risk. An independent view was formed on the levels of provisions posted based on the detailed loan and counterparty information in the credit files. Calculations within a sample of discounted cash flow models were reperformed.

Related party operations and regulatory requirements

Related party identification and recognition is based on judgmental assumptions of management of the Bank due to the multifactorial nature of control and influence, that determine status of related parties. We consider this are as key audit matter as the Bank has significant balances with related parties as at reporting date and the subjective nature of the identification and recognition of related parties.

As at reporting date the Bank was in breach of related party transactions exposure limit (N9), that is subject of regulation by National Bank of Ukraine, and the Bank subsequently agreed with the National Bank of Ukraine Action Plan for bringing the Bank's operations to conformity to the legal requirements and the requirements of the NBU regulations of related party transactions.

We refer to the financial statements Note 4 for information on principal accounting policies, notes 31 and 36 for disclosures

We critically evaluated Bank's approach and methodology to identification of related parties in accordance with regulation of National bank of Ukraine and in accordance with IAS 24 Related Party Disclosures. We evaluated Bank's assessment in respect of disclosure of balances and operations with related parties in these financial statements and whether the Bank complies with regulatory requirements of National Bank of Ukraine and with agreed with the National Bank of Ukraine Action Plan for bringing the Bank's operations to conformity to the legal requirements and the requirements of the NBU regulations of related party transactions.

Emphasis of Matter

We draw attention to Note 4, which discloses regarding calculation of allowance for loan impairment, that accounting estimate related to determination of allowance for loan impairment is a major source of estimation uncertainty because allowances for impairment losses in the financial statements were determined based on existing economic and political conditions. The Bank is not able to predict changes in the economic and political situation that will take place in Ukraine and what effect they might have on the adequacy of allowances for losses in future periods.

Our opinion is not modified in respect of this matter.

Information that is not the financial statements and the Auditor's report on it

Management is responsible for the information other than financial statements and auditor's report thereon. The information other than financial statements and auditor's report thereon comprises the Bank's Issuer report that should be prepared according to the provisions on information disclosure by securities issuers (approved by the NSSMC from the 03.12.2013, no. 2826) and consists information other than the financial statements and our auditor's report thereon. It is expected, that Bank's Issuer report will be available to us after the date of this auditor's report.

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

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

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Responsibilities of Management and the Supervisory Board for the Financial Statements

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

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

The Supervisory Board 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 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 scepticism 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 Banks's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

The engagement partner on the audit resulting in this independent auditor's report is Sviatoslav Biloblovskiy.

Director of AF "PKF Audit-finance" LLC — I.O. Kashtanova

Director of Audit for Banks AF "PKF Audit-finance" LLC — S.V. Biloblovskiy

(Audit certificate No. 0072)

20 April 2018
Kyiv, Ukraine

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2017.

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the attached independent auditors' report, is made to distinguish the respective responsibilities of management and those of the independent auditors in relation to the financial statements of PUBLIC JOINT STOCK COMPANY BANK FOR INVESTMENTS AND SAVINGS (hereinafter – the Bank).

Management is responsible for the preparation of the financial statements that present fairly, in all material aspects, the financial position of the Bank at 31 December 2017 and the results of its operations, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (hereinafter – IFRS).

In preparing the financial statements, management is responsible for:

- proper selection and consistent application of accounting policies;
- making reasonable assumptions and estimates;
- compliance with relevant IFRS or disclosure and explanation of all material departures in the Financial statements;
- preparation of the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in operations for the foreseeable future.

The Bank management is responsible for:

- design, implementation and maintenance of an effective and sound internal control system in the Bank;
- maintaining appropriate accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and help to ensure that the financial statements of the Bank comply with IFRS;
- ensuring compliance of financial accounting with legal requirements and accounting standards applicable in Ukraine;
- application of reasonable efforts to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2017 were approved by the Bank's management and authorized for issue:

20 April 2018

Chairman of the Board O. V. Omelchenko

Chief Accountant T.O. Verba

(in thousands of Ukrainian hryvnias)

Statement of financial position
as at 31 December 2017

	Notes	2017	2016
ASSETS			
Cash and cash equivalents	6	839 598	396 620
Financial assets at fair value through profit or loss		265	-
Due from other banks	7	-	-
Loans and advances to customers	8	3 377 682	4 143 086
Securities available for sale	9	48 030	-
Current income tax receivables		1	326
Deferred tax assets	26	215	123
Property, equipment and intangible assets	10	30 962	22 511
Other financial assets	11	40 220	16 859
Other assets	12	5 692	959
Total assets		4 342 665	4 580 484
LIABILITIES			
Due to banks	13	-	9
Due to clients	14	3 753 330	3 529 618
Financial liabilities at fair value through profit or loss	15	1 690	-
Debt securities in issue	16	15 188	118 028
Other borrowings	17	-	372 253
Current income tax payables	26	55	-
Provisions for liabilities	18	2 833	1 074
Other financial liabilities	19	11 840	9 662
Other liabilities	20	14 843	8 858
Total liabilities		**3 799 779**	**4 039 502**
EQUITY			
Share capital	21	500 000	500 000
Reserves and other funds	21	33 589	33 200
Revaluation reserves		(36)	-
Retained earnings		9 333	7 782
Total equity		**542 886**	**540 982**
Total liabilities and equity		**4 342 665**	**4 580 484**

Signed and authorized for issue

20 April 2018	Chairman of the Board	O. V. Omelchenko
Chernukha S.V. ☎ (044) 207-70-35	Chief Accountant	T.O. Verba

«Банк інвестицій та заощаджень»

(in thousands of Ukrainian hryvnias)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	Notes	2017	2016
Interest income	22	418 129	538 020
Interest expenses	22	(249 096)	(402 202)
Net interest income		**169 033**	**135 818**
Net increase in allowances for impairment of cash equivalents, due from other banks and due from customers		(109 440)	(37 147)
Net interest income adjusted for allowances for impairment of loans and due from other banks		**59 593**	**98 671**
Fee and commission income	23	89 957	54 986
Fee and commission expenses	23	(7 595)	(7 065)
(Losses)/gains on trading in derivatives		18 132	(10 310)
Gains on revaluation of derivatives		3 326	
Gains on trading in foreign currencies		14 906	8 699
Gains/(losses) on foreign currency revaluation		654	17 824
Net increase in allowances for impairment of accounts receivable and other financial assets		(2 054)	(927)
Net decrease/(increase) in provisions for liabilities		(2 758)	(167)
Other operating income	24	2 455	941
Administrative and other operating expense	25	(165 173)	(153 604)
Profit before income tax		**11 443**	**9 048**
Income tax expense	26	(2 110)	(1 266)
Profit for the year		**9 333**	**7 782**
OTHER COMPREHENSIVE INCOME:			
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of securities available for sale		(36)	-
Other comprehensive income after tax		(36)	-
Total comprehensive income for the year		**9 297**	-
Earnings per share (UAH):			
net earnings per ordinary share	27	18,67	15,56

Signed and authorized for issue

20 April 2018	Chairman of the Board	O. V. Omelchenko
Chernukha S.V. ☎ (044) 207-70-35	Chief Accountant	T.O. Verba

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(in thousands of Ukrainian hryvnias)

Statement of changes in equity
for the year ended 31 December 2017

	Notes	Share capital	Reserves and other funds	Revaluation reserves	Retained earnings	Total
Balance at 31 December 2015		**500 000**	**34 634**		**9 435**	**544 069**
Total comprehensive income		-	-	-	7 782	7 782
Profit for the year		-	-	-	7 782	7 782
Other comprehensive income		-	-	-	-	-
Losses covered form reserves			(2 006)	-	2 006	
Allocation of profit to reserves and other funds		-	572	-	(572)	-
Dividends	28	-	-	-	(10 869)	(10 869)
Balance at 31 December 2016		**500 000**	**33 200**	**-**	**7 782**	**540 982**
Total comprehensive income		-	-	(36)	9 333	9 297
Profit for the year		-	-		9 333	9 333
Other comprehensive income		-	-	(36)	-	(36)
Allocation of profit to reserves and other funds		-	389		(389)	-
Dividends	28	-	-	-	(7 393)	(7 393)
Balance at 31 December 2017		**500 000**	**33 589**	**(36)**	**9 333**	**542 886**

Signed and authorized for issue

20 April 2018 Chairman of the Board O. V. Omelchenko

Chernukha S.V. Chief Accountant T.O. Verba

☎ (044) 207-70-35

(in thousands of Ukrainian hryvnias)

Statement on cash flows prepared by indirect method
for the year ended 31 December 2017

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	11 443	9 048
Adjustments for:		
Amortization and depreciation	6 379	2 974
Net increase/(decrease) of allowances for assets impairment	111 536	38 263
Net decrease/(increase) in provisions for liabilities	2 758	167
Amortization of discount / (premium)	2 231	
Losses on transactions with derivatives	(3 327)	-
Losses on transactions with foreign currencies	(654)	(13 703)
(Income accrued)	22 152	12 179
Expenses accrued	26 188	18 272
Net cash income / (loss) from operating activities before changes in operating assets and liabilities	**178 706**	**67 200**
Changes in operating assets and liabilities		
Net (increase)/decrease in mandatory reserves with the National Bank of Ukraine	59 088	(1 127)
Net (increase)/decrease of due from other banks	(705)	-
Net (increase)/decrease of loans and receivables from customers	585 801	875 489
Net (increase)/decrease of other financial assets	(22 689)	(7 712)
Net (increase)/decrease of other assets	(6 513)	(22)
Net increase/(decrease) of due to banks	(9)	9
Net increase/(decrease) of customer accounts	193 317	(954 596)
Net increase/(decrease) of due to banks	(101 706)	83 962
Net increase/(decrease) of other borrowings	(369 193)	(14 447)
Net increase/(decrease) of other financial liabilities	5 758	4 793
Net increase/(decrease) of other liabilities	5 985	-
Net cash generated from/(used in) operating activities, before income tax	**527 840**	**53 549**
Income tax paid	(1 840)	(1 266)
Net cash generated from/(used in) operating activities	**526 000**	**52 283**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of securities available for sale	(50 000)	-
Acquisition of property and equipment	(13 621)	(890)
Gain on disposal of property and equipment	1 413	-
Acquisition of intangible assets	(454)	(409)
Net cash received from/(used in) investing activities	**(62 662)**	**(1 299)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(7 393)	(10 869)
Net cash received from/(used in) financing activities	**(7 393)**	**(10 869)**
Net impact of exchange rates changes on cash and cash equivalents	1 703	13 702
Net increase/(decrease) in cash and cash equivalents	457 648	53 817
Cash and cash equivalents beginning of the period	**389 260**	**335 443**
Cash and cash equivalents at end of the period	**846 908**	**389 260**

Signed and authorized for issue

20 April 2018	Chairman of the Board	O. V. Omelchenko
Chernukha S.V. ☎ (044) 207-70-35	Chief Accountant	T.O. Verba

«Банк інвестицій та заощаджень»

Note 1. Background information

PUBLIC JOINT STOCK COMPANY BANK FOR INVESTMENTS AND SAVINGS (hereinafter – the Bank) was registered by the National Bank of Ukraine on 9 August 2005.

The registered address of the Bank is 83D Melnykova Street, Kyiv-04119, Ukraine.

The Bank web-site address is www.bisbank.com.ua.

The reporting period of these financial statements is the year ended 31 December 2017.

These financial statements are prepared as of 31 December 2017 and presented in thousands of hryvnias.

The Bank is a member of the bank system of Ukraine (which included 82 operating banks at the end of 2017), regulated by the National Bank of Ukraine.

The Bank is an independent financial institution which is not a part of any consolidated groups or a subsidiary of any other company. The supreme governance body is the General Meeting of Shareholders of PJSC *BANK FOR INVESTMENTS AND SAVINGS.*

The Bank is an incumbent member of the Deposit Guarantee Fund

At the end of the year ended 31 December 2017, the Bank employed 435 people (247 people at the end of the year ended 31 December 2016).

As of the reporting date, the regional network of the Bank consists of the Head Office and 32 branches located in the majority of regions in Ukraine (at the end of 2016, the number of branches of the Bank was 21 units).

The strategic goal of the Bank is to create a new quality standard of client-oriented service; to strengthen the Bank's reputation as a stable and reliable Ukrainian bank, to maintain the trend of the dynamic increase in the main financial indicators and to secure high liquidity and solvency.

The Bank provides its services according to license of the National Bank of Ukraine № 221 as of 24 October 2011, and the general license to perform foreign exchange transactions № 221-3 as of 21 June 2013. According to these licenses, the Bank is allowed to enter into the following transactions:

1. Attract deposits (funds and precious metals) from a broad customer base of individuals and legal entities.
2. Open and maintain current (correspondent) accounts of clients, including accounts in precious metals.
3. Place deposit funds and precious metals on behalf of the Bank, at its own discretion and risk.
4. Foreign exchange transactions.

Since 2009, the Bank works with the State Mortgage Institution (a public entity) in the mortgage market.

The Bank is not classified as a specialized bank.

Core activities of the Bank include credit and deposit transactions, settling and cash services for clients, foreign exchange transactions, stock transactions, payment card transactions, and documentary transactions. The policy of flexible and tailored approach to every client allows the Bank to expand its client base continuously and attract its clients' funds to deposits (due to the range of client services offered), and also to credit extensively the real economy sector of Ukraine.

The Bank is also active on the interbank market. It uses instruments of the interbank market to attract or place resources promptly and also to perform foreign exchange transactions both for the benefit of its clients and for the benefit of using its own currency position.

For the purpose of international transactions, the Bank established correspondent relations with PJSC Ukrgasbank, PJSC FUIB, PJSC Pivdennyi Bank, JSCB "INDUSTRIALBANK'etc

The Bank is the member of SWIFT payment system since 2006. In 2008, the Bank joined Visa International payment system and received from the National Bank of Ukraine a registration certificate that confirms its right to issue Visa International payment cards, and started issuing payment cards of this system, namely, Visa Electron, Visa Classic, Visa Gold, and Visa Platinum.

Following the 2017 results, the Bank was assigned to the group of banks with private equity according to the NBU classification.

At 31 December 2017, the major shareholders of the Bank included the following residents of Ukraine:

- Stepan Petrovych Ivakhiv: 23.3% of share capital (including direct ownership of 23.3%);
- Serhiy Mykolayovych Lahur: 17.5% of share capital (including direct ownership of 17.5%);

- Andriy Volodymyrovich Popov: 15.00% of share capital (including direct ownership of 9.7998% indirect ownership of 5.2002%).
- Petro Petrovych Dyminskiy and Zhanna Petrivna Dyminska: joint ownership of 10.0% of share capital (including 5.67% directly owned by P.P. Dyminskiy and 4.33% directly owned by Zh. P. Dyminska).

Managers of the Bank do not own its shares.

The Bank was not part of any merger, takeover, partition or separation in the reporting year .

On 21 September 2017 Credit Rating, independent rating agency confirmed the long-term credit rating of PJSC BANK FOR INVESTMENTS AND SAVINGS at the level of uaA, an investment level with a stable forecast. The agency also confirmed the bank deposit stability rating of «4+» («high reliability»).

The financial statements for the year ended 31 December 2017 were approved by the Chairman of the Board and the Chief Accountant on 20 April 2018

Note 2. The economic environment of the Bank operations

In 2017, there were no significant changes in the macroeconomic environment. Economic growth was slow, but consumer and investment demand was rapidly recovering. According to the results of 2017, real GDP growth was 2.5%, which turned out to be better than the indicator in 2016 2.4%. Improving the pace of economic recovery, especially after falling for four years (2012-2015) is a positive signal regarding the continuation of these trends in 2018.

However, the pace of recovery of different sectors is not equal. Slowest recovery level is refer to iindustry: production volumes remain at the level of 2016. Construction and trade are growing fastest. On the demand side economic growth led to an increase in consumer spending due to the increase of social standards and wages and high investment activity. These two factors should accelerate the GDP growth to 3.2% in 2018.

The growth of industrial production was only 0.4%. However, production growth has been taking place for the second year in a row, whereas in 2012-2015 production decreased by 0.7%, 4.3%, 10.1% and 13%, respectively. The largest decline remains in the production of coke, refined petroleum products - 14.8%. In second place, electricity, gas, steam and air-conditioning supply was -6.5%. The highest growth rates are demonstrated: manufacturing of chemicals and chemical products + 18.4%, manufacturing of motor vehicles, trailers and semi-trailers and other vehicles + 15.5%, and manufacturing of furniture and other products, repair and editing of machinery and equipment + 11.1%.

The situation is complicated in the construction industry. The proposal for the housing market is growing rapidly, especially in the capital. The demand is limited, so the market is accumulated surplus. If this will continue, the risks arise for individual developers. Mortgage lending is growing at a fast pace, but due to a number of barriers to development; its volume is not significant and does not have a significant impact on demand. To stimulate demand for a mortgage must first remove the legal obstacles, in particular to facilitate the repossession of collateral.

For the third consecutive year, Ukraine's balance of payment has a surplus. Moreover, the positive balance of the consolidated balance of payment for the 11 months of 2017 increased compared to the corresponding period of 2016 (to 2.5 billion USD), despite the expansion of the trade deficit of goods (to 7.8 billion USD) due to the cessation of trade with uncontrolled territories and further growth of investment imports.

Termination of production chains due to the suspension of trade with uncontrolled territories expectedly resulted in decrease of physical volumes of exports of ferrous metals. However, the overall exports of goods grew at high rates (20.1% y / y for 11 months of 2017) thanks to increased supplies of food, favourable external pricing environment and a more rapid adjustment mining and smelting sector companies to new conditions. However, import growth (21.8%) due to increase in exports outpaced imports energy, in particular due to the shortage of coal in the domestic market, much of which in previous years supplied from uncontrolled territories, high growth of investment and revitalization of consumer imports.

Expanding trade deficit was offset by an increase in secondary income account surplus and deficit reduction of primary income primarily due to steady growth of private transfers. As a result, the current account surplus remains at the level of 2016 (US $ 3 billion for 11 months in 2017).

In 2017, revenues from the financial account increased (up to US $ 5.5 billion for 11 months in 2017). This was primarily facilitated active involvement of foreign exchange reserves the government of Ukraine in foreign and domestic markets.

There remained significant contribution of private investments and reduction of cash outside banks, but in smaller levels than in 2016. Due to the surplus of the consolidated balance of payments and receiving the tranche of EFF program with the IMF, the international reserves at the end of the year rose to USD 18.8 billion, or 3.6 months of imports.

The labour market situation in the current year also was improving. The number of officially registered unemployed decreased in 2017 by 74.6 thousand people or by 17.4% and as of 01.01.2018, it amounted to 354.4 thousand people. Nominal average wages in 2017 increased over the year by 37% to 7104 USD. At the same time, the high level of consumer inflation in 2017 partially off-set the positive effect of an increase in average monthly wages by 19.1%.

According to the results of 2017, the retail turnover grew to UAH 816.5 trillion (шn comparable prices) or 8.8% compared to the 2016 year (in particular due to the stability of the national currency and real wage growth, which stimulated domestic consumer demand).

The consumer price index for the results of 2017 amounted to 13.7%, which is more than indicated in the target values of the NBU in 2017 - 8% +/- 2%.

Volatility of the UAH exchange rate was moderate (the minimum level of the NBU exchange rate of USD against UAH was 25.44, the maximum value was 28.07).

In 2017, the dynamics of world prices for raw materials was more favourable than expected at the end of last year. Steel prices in Europe reached the highest levels since September 2014. The cost of iron ore at the beginning of 2017 reached a high level, but gradually declined at the end of the year. In 2018, there are expected lower prices for steel and iron ore. In this case, reduce in foreign currency incomes will probably be compensated by rising the cost of food caused by low world harvest in the current marketing year.

The ATO is still in the Donbas, the Minsk process does not provide progress in the settlement of the conflict, the extension of sanctions against the Russian Federation by the United States of America and the European Union has not yet had a proper effect on peace process and the military operations.

Thus, in general, the dynamics of major macroeconomic indicators in Ukraine shows evidence of economic recovery in most sectors, but with slow rate, which in turn had a positive impact on the activities of Ukrainian commercial banks, whose assets increased during the year by 6.4% to UAH 1,336 billion (without insolvent banks). The number of acting banks decreased by 14 institutions to 82.

The regulatory capital of all banks for 2017 decreased by UAH 26.4 billion, or by 19% - to UAH 112.1 billion (the authorized capital increased by 19.5% to UAH 495.4 billion). Reducing the amount of regulatory capital is primarily due to a reduction in the number of active banks and growth in allowance for impairment of assets by 6.7%. The level of capitalization of banks has increased: the value of the ratio N2 "Adequacy of regulatory capital" has increased from 13.34% to 15.35%, which (with the minimum required value at the level of 10%) indicates that the level of solvency of the banking system of Ukraine in general has improved.

As a result of the work of the banking system of Ukraine in 2017, the financial result was negative - losses amounted to UAH 26 billion. The negative financial result of the banking sector was formed primarily due to the increase in allowance for impairment of assets.

Despite the external economic environment and in particular the performance of the banking system, the financial position of PJSC Bank of Investments and Savings was stable, as supported by the positive dynamics of key financial indicators, low level of overdue loans, high level of liquid assets in the Bank's assets, sufficient level capitalization and profitable activities.

Note 3. Principles of the financial statement presentation

The financial statements for the year ended 31 December 2017 were prepared by the Bank according to the requirements of the International Financial Reporting Standards (IFRS), which have been adopted and issued by the International Accounting Standards Board (IASB), and explanations published by the IFRS Interpretations Committee (IFRS IC).

The Bank conducts accounting in accordance with IFRS principles.

These financial statements based on accounting records without the use of transformation entries.

Functional and presentation currencies

The functional currency of the Bank accounting records and financial statements preparation is Ukrainian hryvnia. Unless stated otherwise, the statements are represented in hryvnias and rounded to thousands. Balances carried at the reporting date in a currency other than the functional currency, are translated into the functional currency at the official exchange rates of foreign currencies.

Note 4. Accounting policy principles

Note 4.1. Consolidated financial statements

The Bank is not a member of any group of legal entities where it would be a parent or a subsidiary. The Bank does not present consolidated financial statements for the reporting period.

Note 4.2. The measurement basis of the financial statements preparation

The bases of measurement of financial instruments are fair value, cost, amortized cost, and the effective interest rate method.

The fair value of a financial asset is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

The initial cost is the amount of cash or cash equivalents paid, or the fair value of other resources given to acquire an asset at the acquisition date, which includes transaction costs. Transaction costs are costs inherent in the operations of the acquisition, issue or disposal of a financial instrument.

The amortized cost of a financial assets or a financial liability is the amount at which the financial asset or financial liability is initially recognized less payments of the principal, increased (reduced) by accumulated amortization of any difference between the amount it initial recognition and the redemption value, calculated using the effective interest rate, reduced by write-downs due to impairment or non-recoverability.

The effective interest rate method is the method of calculating amortized cost of a financial asset or financial liability (or a group of financial assets or financial liabilities) and the allocation of interest income or interest expenses over the relevant period. An effective interest rate is the rate that exactly discounts the expected flow of future cash payments or receipts over the expected life of the financial instrument to the net carrying value (amortized cost) of this instrument.

The Bank's accounting policies on recognition and measurement of specific assets and liabilities, income and expenses are disclosed in the accompanying notes hereto.

Note 4.3. Initial recognition of financial instruments

Derivatives and other financial instruments at fair value through profit or loss are initially recognized at fair value. All other financial instruments are initially recognized at fair value plus transaction costs. The gain or loss on initial recognition is recognized only if there is a difference between the fair value and the contractual price.

All transactions of purchase or sale of financial assets, which envisage the delivery during a period determined by law or by market traditions (regular purchase and sale), are recognized on a date of settlements, that is the date the Bank supplies the financial asset. All other financial asset purchases are recognized when the Bank become a party to the purchase contract.

Note 4.4. Impairment of financial assets

Impairment losses are recognized in profit or loss as they occur as a result of one or more events (loss events) that occurred after the initial recognition of the asset, and that event (or events) impacts on previously estimated future cash flows from the financial asset or the group of financial assets, and the losses can be reliably estimated.

When the Bank determines that there are no objective indicators of impairment of an individually assessed financial asset, those assets in included into a group of financial assets with similar credit risk characteristics and tested for impairment as a group.

For the purposes of a collective assessment of impairment, financial assets are grouped into groups based on similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the ability of the borrower (debtor) to pay the amount due according to the contractual terms of the asset.

Future cash flows in a group of financial assets that are collectively assessing for impairment are based on contractual cash flows from the assets and the Bank's previous experience as to what extent such amounts become past due as a result of an incurred 'loss event' and the extent to which these delinquent payments can be reimbursed. Previous experience adjusted for current data that reflects the effect of current conditions that did not affect the period of the historical loss experience, and remove the effects of conditions in the historical period that do not exist now.

As soon as the objective information becomes available that allows to estimate losses from individual assets in an impaired group (for example, information on an entity bankruptcy, the death of a borrower, a debt being overdue for more than 180 days, etc.), these assets are removed from the group (portfolio) and tested for impairment individually.

The main indicators of asset impairment (loss events) are as follows:

- the borrower experiences material financial difficulties;
- the borrower violates the loan agreement, e.g. refuses to pay of delays payments of interest or principal;
- the Bank grants special conditions, economically or legally related to the borrower's financial difficulties, which would not be granted otherwise;
- the borrower is bankrupt or subject to reorganization.

Impairment losses are recognized by creating a allowances in the amount necessary to reduce the carrying amount of the asset to the present value of the estimated cash flows (exclude future credit losses that have not been incurred) discounted at the original effective interest rate for the asset.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Financial assets are classified into material and immaterial assets.

Financial assets that are not individually material include:

- corporate loans with not more than UAH 50 million outstanding on the reporting date, or an equivalent in a foreign currency, determined at the official exchange rate set by the NBU on the allowance date;
- loans to individuals with not more than UAH 0.5 million outstanding on the reporting date, or an equivalent in a foreign currency, determined at the official exchange rate set by the NBU on the allowance date;
- receivables not exceeding UAH 5 million at the reporting, or an equivalent in a foreign currency, determined at the official exchange rate set by the NBU on the allowance date.

All other financial assets are considered as individually material.

If the borrower has at least one individually material financial asset, all other financial assets of that borrower are also recognized as individually material. Financial assets of one debtor that individually are immaterial are recognized as individually immaterial.

Materiality thresholds are reviewed at least once a year.

If there is objective evidence (indicators) of impairment of an individually material financial asset, the Bank determines the amount of impairment loss on an individual basis. The amount of the impairment loss on an individual basis is the difference between the asset's carrying amount and the present value of estimated future cash flows (including cash flows from sales of collateral), discounted at the initial effective interest rate of the asset.

The Bank assesses the risk of default by the debtor (counterparty) on its obligations and provides for it in full regardless of the amount of revenues as of the first day of each month following the reporting month.

If, in a subsequent period, the impairment loss is reduced and this reduction can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced either directly or by adjusting the allowance account. This reverse entry should not lead to the carrying amount of the financial asset exceeding its amortized cost, calculated as if the impairment had not been recognized at the date of recovery of impairment. The amount of the reverse entry is recognized in profit or loss. This procedure does not apply to equity instruments. Therefore, if in the following periods after the charge of an allowance for a financial asset the amount of the allowance changes, the Bank accordingly adjusts the previously charged allowance for the asset (except for any reduction of the allowance for shares and other variable income securities carried in the Bank's available-for-sale portfolio).

The amount of the allowance is taken into account for the purposes of recognition of interest income on impaired financial assets.

Interest income on financial assets that are not impaired, is recognized without taking into account the amount of the allowance.

Note 4.5. Derecognition of financial assets

The Bank derecognizes a financial asset or a group of financial assets (hereinafter – a financial asset) in the following cases:

- the asset was cancelled or the contractual rights to the cash flows from the asset expired; or
- the Bank transferred the rights to the cash flows from financial assets or entered into a transfer agreement and also transferred substantially all the risks and rewards of ownership of the financial asset; or
- the Bank did not transfer and does not retain substantially all the risks and rewards of ownership but did not retain control. Control is retained when the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer.

The Bank derecognizes a financial liability when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is exchanged for another financial liability from the same lender of debt instruments with substantially different terms, or when the terms of the existing liability are substantially modified, this exchange or modification is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference in the relevant carrying amount is recognized in profit or loss.

Note 4.6. Cash and cash equivalents

Cash and cash equivalents are assets that can be converted into cash on first demand and which are subject to an insignificant risk of changes in value. Cash and their equivalents include the cash in hand, in ATMs and computer-based self-service facilities, funds on the correspondent account with the National Bank of Ukraine, NBU deposit certificates, deposits and overnight loans with other banks provided that no credit risk exists.

Balances of the mandatory reserve with the National Bank of Ukraine are carried amortized cost and comprise mandatory reserve deposits, which cannot be used to finance routine operations of the Bank.

Information of cash and cash equivalents is disclosed in Note 6 Cash and cash equivalents.

Note 4.7. Mandatory reserves with the National Bank of Ukraine

Mandatory reserves represent a monetary instrument of the money supply regulation and the monetary market management. Mandatory reserves are charged based on the existing reservation requirements to the Bank's obligations with respect to the raised funds.

The amount of mandatory reserves, which should be maintained daily at the beginning of the banking day on the correspondent account with the National Bank of Ukraine, should be at least 40% of the reserve base calculated for the corresponding period. In order to improve the ability of banks to manage their liquidity, the National Bank of Ukraine, by its decision, reduced the amount of mandatory reserves, which banks must keep on the correspondent account at the beginning of the banking day, up to 0%.

Such decision gives the Bank more flexibility in management of additional liquid funds.

Note 4.8. Financial assets at fair value through profit or loss

The financial assets measured at fair value through profit or loss include debt securities, shares and other variable income securities held in the available-for-sale portfolio.

In 2016, the Bank did not perform any transactions with financial assets measured at fair value through profit or loss.

Note 4.9. Due from other banks

Due from other banks include deposits with other banks, loans to other banks and repurchase agreements.

Due from other banks is initially measured at cost, which includes the fair value and the costs directly attributable to the financial instrument acquisition. At each subsequent reporting after recognition, these financial instruments are measured at amortized cost.

The Bank records interest income on these financial instruments on interest income accounts using the effective interest rate (hereinafter - EIR). The Bank does not apply the EITR to short-term interbank loans and deposits, namely:

- for loans and overnight deposits, which arise during a month and do not survive the month end;

- for short-term interbank loans and deposits maturing within 30 calendar days and which do not survive the month end.

In the case of loans and overnight deposits, which exist at the month end, and in the case of short-term interbank loans and deposits, issued at market terms and where the periods of interest accrual and payment are the same, the Bank makes a professional judgment according which the EIR is the same as the nominal interest rate. The EIR is calculated for these financial instruments but technical discount is not recorded on unamortized discount or premium accounts.

Note 4.10. Loans to customers

Loans to customers are initially recognized at fair value, including transaction costs and other charges attributable to the initiation of the loan. At the reporting date, the loans are carried at amortized cost using the EIR less any recognized impairment loss.

At initial recognition, the Bank records a gain or loss in the amount of the difference between the fair value of a financial asset and the contract value in correspondence with discount (premium) accounts, if the effective interest rate on this instrument is higher or lower than the market rate. The difference between the fair value of a financial asset and contract value on transactions with shareholders is recognized directly in equity and created to retained earnings (accumulated loss) over the life of the financial instrument or at the disposal of thereof.

Interest income on impaired financial assets is recognized with regard to their the carrying amount (including the impairment allowance) using the EIR, which discounts the estimated expected cash flows in the course of testing the financial assets for impairment.

Income interest and expenses at the EIR are recorded on nominal accounts for accrued income and expenses.

During 2017, the Bank provided its clients with guarantees securing the offer and guarantees of contract performance. Financial guarantees provided were initially measured at fair value, which is equal to the amount of fees received (remuneration for the guarantee provided). The fee received for the guarantee is amortized over the life of the guarantee on the straight-line basis.

The Bank restructures credit operations to maintain solvency of its borrowers experiencing difficulties as a result of force majeure, and to reduce credit risk as appropriate, and to secure stability of its operations.

Restructuring is the change of significant terms of an existing agreement by entering into an additional agreement with the borrower as a result of the borrower's financial difficulties (as determined by the Bank) and the need to create favourable conditions for the borrower to meet its obligations (changes in interest rates, cancellation, in full or in part, of accrued financial sanctions (fines or interest) for late payments of debt, changes of the repayment schedules, changes in fees and commissions etc.).

The Bank monitors, on an ongoing basis, renegotiated loans to control the quality of the loan restructuring and the possibility of future payments. These loans continue to further be assessed for impairment.

Information on loans to customers is disclosed in the Statement of financial position and in Note 9 Loans to customers.

Note 4.11. Financial assets available-for-sale

In 2017, the Bank did not enter into any transactions with financial assets available-for-sale.

Note 4.12. Securities repurchase agreements

Repo agreements are agreements to sell (purchase) securities with an obligation for repurchase them after a specified period at a pre-set price assessed on the basis of a single repo agreement.

In 2017, the Bank did not enter into any repo transactions.

Note 4.13. Financial assets held to maturity

Financial assets held to maturity include fixed or fixable payment debt securities and fixed maturity. Debt securities are classified as held to maturity when the Bank intends and is able to hold them to maturity. Financial assets held to maturity are initially recognized at fair value. At each subsequent reporting date, financial investments held to maturity are carried at amortized cost using the effective interest rate. In 2017, the main transactions with financial assets held to maturity were transactions with deposit certificates of the National Bank of Ukraine.

Note 4.14. Investments in associates and subsidiaries

The Bank has no investments in associates and subsidiaries as there are no associates or subsidiaries of the Bank.

Note 4.15. Investment property

Investment property is property (land plots, buildings or parts or combinations thereof) owned or leased under finance leases and held to obtain rental payments and/or capital appreciation or both.

The Bank applied the following recognition criteria to its investment property:

A property is acquired by the Bank with a view to lease it under finance or operational lease arrangements.

Per the lease agreement, at least 90% of the property is leased for the term exceeding one year.

Investment property is initially recognized at cost including the purchase price and all costs directly attributable to its acquisition. At each subsequent date after initial recognition, investment property is measured at cost less accumulated depreciation and impairment losses.

No investment property was carried by the Bank in 2017.

Note 4.16. Goodwill

Goodwill is an excess of the purchase price over the acquirer's interest in the fair value of acquired identifiable assets, liabilities and contingent liabilities at the acquisition date.

In 2017, the Bank did not recognize any goodwill.

Note 4.17. Property and equipment

Property and equipment are tangible items that the Bank holds for use in the course of business, supply of services, for rental to others, or for administrative purposes and that are expected to be used during more than one year, and the unit (set) cost of which (including VAT) is more than UAH 6 thousand.

Non-current tangible assets with cost not exceeding UAH 6,000 useful life exceeding one year are recognized as low-value non-current assets.

Purchased (manufactured) property and equipment are valued at cost, which includes the purchase price, state duty, customs duty, shipping and unloading costs, installation costs and other costs directly attributable to bringing the asset to operational condition.

The initial cost of property and equipment is increased by the expenses incurred in the course of the asset improvement (modernization, modification, completion, further equipping, reconstruction etc.).

Following initial recognition, property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Non-current assets are not revalued. The costs of current repair and maintenance of assets are expensed as incurred and do not affect the carrying value of property and equipment..

Impairment of property and equipment in the Bank is identified by the permanent commission when there is evidence of possible impairment of the assets. Based on the analysis of the possible impairment of property and equipment a decision is made as to the recognition or reversing of impairment losses on property and equipment.

In 2017, the Bank did not recognize impairment of property and equipment, as the loss of economic benefits of property and equipment carried by the Bank was not probable.

Note 4.18. Intangible assets

Intangible assets include non-monetary assets that do not have physical substance and can be identified. Intangible assets include acquired licenses and software and are carried at cost, which includes actual acquisition (production) cost and any directly attributable cost of preparing the asset for its intended use.

Subsequently, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

The Bank determines the useful life of each intangible asset on an individual basis, according to the following criteria: experience of the Bank with similar assets, current trends in the development of software products, and performance characteristics.

The amortization rates and useful lives of intangible assets in use are revised when expected benefits from their use change. In 2017, the Bank did not revise any amortization rates or useful lives of its intangible assets.

Impairment of intangible assets in the Bank is identified by the permanent commission when there is evidence of possible impairment of the assets.

In 2017, the Bank did not recognize impairment of intangible assets, as the loss of economic benefits of intangible assets carried by the Bank was not probable.

Note 4.19. Operating leases where the Bank is a lessor and/or a lessee

Operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Usually operating lease contracts give the lessee the right to use non-current assets for a period not exceeding their useful lives and provide for a return of assets when the lease contract expires.

In 2017, the Bank was the leaseholder of offices under operating lease arrangements. Lease payments under operating lease agreements are recognized as other operating expenses.

Leasehold improvement costs incurred by the lessee Bank (modernization, modification, further construction, upgrade, renovation etc. of assets in operating lease) that lead to future economic benefits in excess of those initially expected from their use, are recognized by the Bank as a capital investment in leasehold improvement.

In 2017, the Bank leased a part of its own premises under an operating lease agreement. As of 31 December 2017, the value of assets leased by the Bank under operating leases was UAH 3,680 thousand.

Property and equipment subject to operating leases are measured using the same method as property and equipment used by the Bank

Note 4.20. Finance leased where the Bank is a lessor and/or a lessee

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred depending on the substance of the transaction in accordance with IAS 17 Leases.

During the reporting year 2017, the Bank purchased a packaging line and a packet press facility for UAH 27,082 thousand for further transfer to a financial lease. Under a finance lease agreement, the lessee pays monthly lease payments. Lease payments include the compensation of the value of the leased asset and reward of the Bank, as the lessor. Incomes from financial leases is recognized with the effective interest rate method.

As at the balance sheet date, the outstanding balance of the contract is UAH 2,257 thousand. The Bank recognized the impairment of this financial asset in the amount of 6 thousand UAH.

Note 4.21. Non-current assets held for sale and disposal groups

The Bank classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets are classified by the Bank as those held to sale, if the following criteria are met on the date of the decision to recognize them as assets held for sale: the condition of the assets allows to sell them immediately, and their sale within one year following the classification is highly probable.

As at 31 December 2017, the Bank did not have non-current assets held for sale or disposal groups.

Note 4.22. Depreciation and amortization

All non-current assets (except for land and capital investments in progress) are subject to depreciation and amortization.

Deprecation or amortization is not charged when the book value of a non-current asset equals its scrap value.

Deprecation or amortization of non-current assets is charged from the first day of the month following the month of acquisition and is terminated on the first day of the month following the month of the asset disposal.

Non-current asset depreciation or amortization rates are based on the useful lives of non-current assets. Deprecation or amortization is charged on a straight-line basis.

Property and equipment is depreciated and intangible assets are amortized over their useful lives determined by the permanent commission at their initial recognition based on useful lives of groups and subgroups of non-current assets classified by the Bank for accounting purposes, and useful lives of intangible assets set forth by title documents (contracts, licenses etc.) taking into account minimum depreciation and amortization terms specified by the Tax Code of Ukraine, namely:

- land plots – not depreciated;

- buildings, structures and transmission equipment - 20 years;
- machinery and equipment – 4-10 years;
- vehicles (motor cars) – 5 years;
- instruments, fixtures, and furniture – 4-5 years;
- other property and equipment – 12 years.

Low-value non-current tangible assets are 100% depreciated in the first month of their use.

The Bank did not revise depreciation and amortization rates and useful lives of non-current assets in 2017.

Note 4.23. Discontinued operations

According to International Financial Reporting Standards, a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations,

(b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or

(c) is a subsidiary acquired exclusively with a view to resale.

In 2017, the Bank did not discontinue banking operations under the license of the National Bank of Ukraine.

Note 4.24. Derivative financial instruments

A derivative financial instrument is a financial instrument, which meets the following criteria:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other underlying variable;
- it requires no initial net investment; and
- it is settled at a future date.

The Bank enters into derivate contracts, including foreign currency purchase, sale and exchange contracts, with other banks, as well as currency swaps designed to manage currency and liquidity risks and for trading purposes. These derivatives are initially recognized and recorded at fair value. Transaction costs are expensed at initial recognition. All derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives used by the Bank are not hedge instruments and are not subject to hedge accounting.

Note 4.25. Borrowings

Borrowings are non-derivative financial liabilities to customers. They are recognized at fair value when the Bank receives cash and subsequently measured at amortized cost using the effective interest rate.

Deposits are accepted, serviced and repaid, and interest is accrued and paid on them under the terms of agreements entered into in national and foreign currencies. The Bank is a member of the Deposit Guarantee Fund.

Income and expenses are recognized on an accrual basis or based on the fact under the contract result. Interest on borrowings is accrued using the actual/actual method.

The Bank accepts deposits from individuals and issues registered saving (deposit) certificates. These certificates are debt securities of the Bank that are placed (sold) at their face (fair) value. The Bank subsequently measures them at amortized cost.

Note 4.26. Financial liabilities at fair value through profit or loss

A financial liability is any liability that:

- a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank;
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the Bank is obliged to deliver a variable number of its own equity instruments, or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

A financial liability is recognized only when the Bank becomes a party to a contract that gives rise to this instrument.

Both financial liabilities and financial assets are initially recognized at fair value adjusted for costs directly attributable to the acquisition or issue transaction.

Financial liabilities are derecognized at the date of their settlement.

Note 4.27. Debt securities in issue

A saving (deposit) certificate is a security certifying the amount of the deposit in the Bank and the rights of the depositor (certificate holder) to receive, after a specified period of time, the principal amount of the deposit and interest set by the certificate. The Bank issues registered saving (deposit) certificates for a period of six months or more.

Saving (deposit) certificates are issued both in national and in foreign currencies in the documentary (paper) form only.

The Bank recognizes a gain or loss in the event of funds raising on the deposit (where a saving (deposit) certificate is issued) at a rate that is lower or higher than the market rate. In the case of transactions with shareholders, these differences are recognized on account 5105 Gain of Loss of Financial Instrument Value Adjustment at Initial Recognition.

When the term of the deposit repayment according to a fixed-term saving (deposit) certificate expires, the certificate is classified as a document on demand, and the Bank is obliged to pay the deposit amount and interest thereon specified in the certificate, should be certificate be presented.

Note 4.28. Provisions for liabilities

A provision is recognised when the Bank has a present obligation (legal or constructive) as a result of a past event with high probability that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for financial liabilities are provided for their future performance, and recognized in the statement of financial position of the Bank as an liabilities and disclose potential losses as a result of the outflows of resources associated with the Bank's performance of such financial liabilities.

The Bank assesses credit risk of the financial liabilities issued on an individual basis. The Bank assesses credit risk on the financial liabilities issued, which were recorded on the following groups of off-balance sheet accounts:

- warranties, guarantees, letters of credit and acceptances granted to banks;
- guarantees granted to clients;
- credit related commitments granted to banks;
- credit related commitments granted to clients;
- foreign currency and precious metals receivable;
- assets receivable.

The Bank does not provide for:

- credit related commitments to customers (other than banks) which are revocable and risk-free, i.e. where the contractual terms specify the Bank's unfettered right to decline, unilaterally and without notifying the debtor in advance, to continue the fulfilment of its obligations, including the cases of the debtor's financial condition deterioration and/or failure to perform under the contract on a timely basis;
- tax bills avalised by the Bank;
- transactions with assets receivable under spot terms, forwards, options and futures, where the Bank, according to contracts is not obliged to effect prepayments but has the right to decline the liabilities, by offsetting counterclaims or otherwise.

Note 4.29. Subordinated debt

Subordinated debt represents common unsecured debt capital instruments (equity components), which, according to the contract, cannot be taken from the Bank within a five-year period, and in the case of bankruptcy or liquidation are returned to the investor after the claims of all other creditors are settled. Subordinated debt may be included in the Bank's regulatory capital following a permission of the National Bank. The amount of subordinated debt included in regulatory capital is reduced annually by 20% of its initial amount over the last five years of the contract. Subordinated debt is initially recognized at fair value. Subsequently it is carried at amortized cost using the effective interest rate.

In 2017, the Bank did not raise funds through subordinated debt.

Note 4.30. Income tax

In the reporting year, the profit of the Bank was taxed according with the Tax Code of Ukraine.

The income tax rate is 18% in 2017.

For the purposes of temporary differences and deferred tax computation, the Bank applies the method based on appropriate book values and tax bases.

According to IAS 12 Income Taxes, temporary differences are the differences between the book value of an asset or liability and its tax base. Deferred tax assets and deferred tax liabilities are determined on a quarterly basis in accordance with the period of interim financial reporting.

Income tax expense in the financial statements includes current tax and movements in deferred taxes.

Income tax expense are recognized in profit or loss, except for the amounts included directly in equity.

Note 4.31. Share capital and share premium

Share capital_represents the paid shareholders' commitments to invest funds taken through a subscription for shares in the share capital, the amount of which is registered in accordance with Ukrainian law. Any increased or decreases of the share capital are effected following the procedure set forth by the National Securities and Stock Market Commission.

Share premium represents the difference between the proceeds from the share issue and their face value.

Contributions to share capital are carried at their fair value at the date of the transaction.

At 31.12.2017, the registered and fully paid share capital consists of 500,000 ordinary registered shares with e face value of UAH 1,000 per share. All ordinary shares give equal voting rights following the one share is one vote principle.

Note 4.32. Preference shares

Preference shares give their holders the prevailing rights with respect to the holders of common shares, to receive part of the profits of the Bank in the form of dividends and to receive part of the Bank's property in case of liquidation, as well as providing the right to participate in governing the Bank in cases stipulated by the Charter and the law which regulates the establishment, operation and termination of joint stock companies.

The Bank neither issued nor placed preferred shares.

Note 4.34. Dividends

Dividends are a part of the net profit distributed among the shareholders according to their share in the Bank's authorized capital. Dividends are paid from the net profit of the reporting year and/or retained earnings according to the decision of the Annual General Meeting. The amount of the dividends is determined by the Annual General Meeting.

Note 4.35. Recognition of income and expenses

Interest income and expenses attributable to debt instruments are accrued using the EIR method and recorded in accounts. If the recoverability of loans or other debt instruments is doubtful, their value is written down to the present value of expected cash flows and interest income is subsequently accrued, and the effective interest rate used to measure impairment losses. If there is a recovery of impaired loans, then the actual interest received is recognized as interest income.

According to the professional judgment of the Bank's management, the effective interest rate is not calculated for financial instruments which have maturity "on demand" or short-term products, where it is not possible to calculate future cash flows, and if the impact of the effective interest rate application is immaterial, as well as for the financial assets that have similar terms and economic substance:

- financial instruments on current and correspondent accounts;
- funds on demand for transactions with payment cards;
- overdraft facilities for current, card and correspondent accounts, including unauthorized overdrafts;
- deposits on demand;
- overnight loans and deposits;
- revolving credit lines, including payment cards loans, where withdrawals and repayments have unplanned schedule.

(in thousands of Ukrainian hryvnas unless otherwise indicated) Translated from Ukrainian original

For the financial instruments where it is not possible to determine future cash flows and with no effective interest rate, the Bank applies a nominal interest rate to recognize interest income.

All other payments, commission and other income and expenses are generally accounted by accrual method regardless of the degree of completeness of a particular transaction, which is defined as the proportion of the actual service rendered in the total amount of services to be provided.

For the purpose of these financial statements, income and expenses recognized by the Bank from banking operations and other operations are classified as income and expenses from operating, investing and financing activities of the Bank.

Gains and losses from operations are determined by agreements between the parties thereto or other documents issued in accordance with Ukrainian law .

Income and expenses are measured and recorded in the period of economic transactions, whether or not cash was received or paid. Amortization of discount (premium) on financial instruments is charged when interest is accrued.

Gains (losses) from one-off services (e.g. fees for currency exchange, advice provided (received), etc.) are recognized but not recorded on accrued income (expenses) accounts, if the funds were received (paid) during the reporting period in which the services were actually rendered (received).

Fees and commissions that are an integral part of credit income (expenses) are recorded by the Bank on deferred income accounts until a loan or a credit line tranche is issued. Prepaid commissions are included in the financial instrument when the loan is issued, by a transfer thereof to discount/premium accounts

Note 4.36. Foreign currency translation

Monetary assets and liabilities in foreign currencies and precious metals are translated into hryvnia at the official rate of the National Bank of Ukraine, effective on the transaction date.

At each subsequent reporting date after the recognition all monetary items in foreign currency and precious metals are carried at the UAH official exchange rate to foreign currencies/precious metals on the reporting date.

Gains or losses from translation of foreign currencies and precious metals are shown as Gains/(losses) on foreign currency revaluation in the statement of profit or loss and other comprehensive income.

Non-monetary items in foreign currencies and precious metals carried at cost are recorded at the UAH official rate to foreign currencies and precious metals on the date of their recognition (transaction date).

Non-monetary items in foreign currencies and precious metals carried at fair value are recorded at the UAH official rate to foreign currencies and precious metals on the date of their fair valuation.

Assets and liabilities in foreign currencies and precious metals are recognized in the financial statements in their UAH equivalent at the official exchange rate at 31 December 2017 or the recognition date. Balances on accounts 3800 and 3801 are not presented in the financial statements.

In preparing these financial statements, the Bank used such official exchange rates of Ukrainian hryvnia to foreign currencies. :

Currency code		Currency name and amount		31 December 2017	31 December 2016
826	GBP	100	English pounds	3 773,3670	3 332,0755
840	USD	100	US dollars	2 806,7223	2 719,0858
985	PLN	100	Polish zloty	801,1726	643,9048
643	RUB	10	Russian roubles	4,8703	4,5113
756	CHF	100	Swiss francs	2 861,8783	2 652,8471
978	EUR	100	Euros	3 349,5424	2 842,2604

Note 4.37. Offsetting of assets and liabilities

The offsetting of financial assets and liabilities with subsequent inclusion in the Statement of financial position (Balance) only of their net amount may be made only if there is a legally determined right to offset the recognized amounts if it intends to calculate on the basis of the net amount or at the same time realize the asset and pay off by obligation.

Note 4.38. Assets held in trust

The Bank effects trust management operations with funds attracted from individuals and legal entities to finance housing construction. As of 31 December 2017, the Bank is the manager of four construction financing funds.

The Bank records financial assets held in trust and keeps separately from its own assets. Trust management operations are accounted for separately by each individual trust management contract.

Trust management is based on the trust management agreement concluded between the Bank and the trustor.

The Bank receives income from this type of operation predominantly as fees from trustors and developers; the amounts and frequency of payments are specified by relevant agreements. The Bank records these fees on account 6116.

Note 4.39. Accounting for inflation

The need to translate the financial statements in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies is a matter of judgment. Characteristics of the economic environment of Ukraine in 2017 do not contain indicators of hyperinflation. Therefore, the Bank did not recalculate the financial statements.

Note 4.40. Employee benefits and associated deductions

Employee benefits include:

- short-term payments:
  - wages, salaries and social contributions;
  - annual paid leaves and temporary disability;
  - payment of bonuses;
- post-employment benefits, such as:
  - pensions (e.g. pensions and one-time payments on retirement);
- other long-term payments, such as:
  - jubilee payments or other long-service benefits;
  - payments on long-term disability;
- severance payments.

The main deductions from the payments made by the Bank to its employees include personal income tax and military duty. A unified social contribution is also levied.

The Bank makes monthly allocations to the provision for vacations. This provision is used to pay for annual vacations of employees in future periods.

The Bank does not have a pension scheme for its employees.

Note 4.41. Operating segment information

In accordance with IFRS 8 Operating Segments, information should be disclosed in respect of both business segments and geographical segments. One of these formats is treated as primary, and the other as secondary.

The Bank designated business segments as the primary disclosure format. No disclosure is made by geographical segments, as the Bank does not work outside Ukraine.

Operating segments are identified on the basis of major operation areas:

1) services to corporate clients: business segment provides services to current accounts, deposits, providing debt financing in various forms, services sale of foreign currency, etc.;
2) services of retail business: business segment provides banking services, private customer, including opening of current accounts, deposits, deposit box services, credit, etc.;
3) interbank business

An operating bank segment is treated as a reporting segment if its revenue is generated predominantly from external customers and its operating indicators meet at least one of the following criteria:

- its reported revenue is 10 per cent or more of the total comprehensive income;
- the absolute amount of its reported profit or loss is 10 per cent or more of the total profit or loss;
- the carrying amount of assets is 10 per cent or more of the combined assets of all operating segments.

Intersegment transactions are performed on normal market conditions. Resources are reallocated between segments, which causes transfer expenses or income of segments. There is no other significant redistribution between segments. Segment assets and liabilities account of a major portion of total assets in the balance sheet and do not exclude tax effects. Capital is not assigned to segments except for result of the current year and other comprehensive income.

There were no changes in the accounting policies regarding the recognition and allocation of segments in the reporting period.

Note 4.42. Related party transactions

The Bank defines the list of related parties in accordance with International Accounting Standard 24 Related Party Disclosures.

Agreements with related parties may not provide for conditions that are not current market conditions. When the terms of agreements with related parties of the Bank are different from current market conditions, these agreement are deemed invalid when signed.

Note 4.43. Changes of accounting policies, accounting estimates, correction of significant errors and their presentation in the financial statements

Changes in accounting policies are made when required by a new or revised standard or interpretation, or on the Bank's own initiative, if the changes provide for more reliable and meaningful information in the financial statements.

There were not detected significant errors in the Bank's accounting for 2017. Adjusting entries were carried out on operations for forming provisions for impairment of active operations. There were no error corrections for previous periods.

Note 4.44. Significant accounting judgments and estimates, and their effect on the recognition of assets and liabilities

Preparation of IFRS financial statements requires the Bank to make certain judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets and liabilities, income and expenses presented in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, and the results of which form the basis for judgments about the carrying amounts of assets and liabilities. 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 in subsequent periods include:

Going concern. The Bank follows the assumption that its operations will continue in the future, and that it has neither the intention nor the need for the liquidation or a significant reduction in the volume of transactions.

Loan impairment losses. Estimation of allowances for loan impairment requires significant professional judgments. The Bank regularly reviews its loan portfolios to assess their impairment. The Bank estimates allowances for impairment losses to maintain the allowances at the level, which management believes to be sufficient to cover losses incurred with respect to the Bank's loan portfolio. An allowance for loan impairment is calculated based on the estimates made using statistical techniques and historical experience. The results are adjusted on the basis of management's judgment. The Bank expects that the accounting estimate related to determination of allowance for loan impairment is a major source of estimation uncertainty because of the fact that they are particularly sensitive to changes from period to period, as assumptions about future default rates and valuation of potential losses relating to impaired loans and given funds are based on recent performance experience, and any significant difference between the expected losses of the Bank (recognized in provisions) and actual losses would require the Bank creating provisions, which, in case of significant differences could significantly affect its Statement of comprehensive income and Statement of financial position in future periods. The provisions for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not able to predict the changes in conditions than may take place in Ukraine and the effect such changes might have on the adequacy of provisions for impairment of financial assets in future periods.

Note 9 discloses information on the carrying value of loans and the amounts of credit risk recognized. If actual repayments were lower than management estimates, the Bank would be required to record additional loan impairment expenses.

Fair value of financial instruments. If the fair value of financial assets and liabilities stated in the statement of financial condition cannot be derived on the basis of active market prices, it is estimated using various measurement methodologies that include the use of mathematical models. The input data for these models is obtained, where possible, from observed markets, and if this is not possible, certain assumptions are used in order to estimate the fair value.

Fair value of the collateral. Fair value of collateral was taken into account when estimating loan loss provisions based on reports prepared by independent appraisers and appraisal companies and the Bank's employees - certified appraisers, which are not the Bank's related persons. The collateral value was measured on the basis of assessed value based on the professional opinion of appraisers. Fair value of collateral requires the use of judgments and assumptions about the property comparability and other factors. Based on the above, the provision for loan impairment may be affected by the use of assessed collateral value. Accounting estimates related to valuation of property is a key source of the assessment uncertainty, because the recognition of changes in estimates can potentially have a significant impact.

Note 5. Transition to new and amended standards

The accounting policies adopted are consistent with those applied in the previous financial year

The following new standards and amendments to standards are mandatory for the Bank after 1 January 2017

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

According to the amendments, the entity has to consider whether tax law places any restrictions on the sources of taxable income against which deductions are possible when these temporary difference is restored. The amendments also provide guidance for the assessment of future taxable profit and describe the circumstances when the taxable profit may envisage the recovery of certain assets in the amount exceeding their carrying amount.

These amendments do not have any impact on the financial statements of the Bank.

New standards and interpretations that will be mandatory for the Bank in the future are presented below

The following new standards and interpretations mandatory for the Bank in the reporting periods beginning on or after 1 January 2018 were published.

The Bank did not apply these standards and interpretations before their effective dates

IFRS 9 Financial Instruments

In 2014 IASB published the final version of IFRS 9 Financial Instruments which represents the results of all stages of the project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions.

The completed standard comprises guidance on classification and measurement, accounting for impairment risks and derecognition

- IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and its cash flow characteristics. A new business model was introduced which allows certain financial assets to be categorized as "fair value through other comprehensive income" in certain circumstances.
- The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, a fair value option for financial liabilities was introduced to address the issue of own credit risk.
- The new standard introduces a single "expected credit loss" impairment model for the measurement of financial assets.
- IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.

- IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.

Prepayment features with negative compensation. This amendment allows companies to measure particular prepaid financial assets with negative compensation at amortized cost or at fair value through other comprehensive income if specified conditions are met.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted The standard is applied retrospectively to the classification of financial instruments, assessment of credit losses and recognition of income and expenses with respect to financial instruments subject to certain exceptions and simplifications. Namely, comparative information for previous periods does not need to be restated, items derecognized as at the transition date are not subject to retrospective application, and any differences between carrying values of financial instruments under IAS 39 and IRFS 9 at the transition date are recognized in opening equity balances.

The effect of IFRS 9 on the classification and measurement of financial assets and financial liabilities of the Bank as at the date of preparation of the financial statements is disclosed in Note 37 "Events after the balance sheet date".

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in December 2017 and provides a new 5-step model to be applied to revenue from contracts with customers. According to IFRS 15, revenue is recognized in the amount that reflects the consideration the entity expects to be entitled to in exchange for goods or services transferred to the customer. The principles of IFRS 15 secure a more structures approach to revenue measurement and recognition.

The new standard supersedes:

- IAS 11 Construction Contracts;
- IAS 18 Revenue;
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC-31 Revenue—Barter Transactions Involving Advertising Services.

The standard is applicable for annual periods beginning on or after 1 January 2018, either retrospectively or using a modified retrospective approach. Earlier application is permitted.

The Bank is assessing the impact of IFRS 15 and plans to adopt the standard on its effective date.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15 Revenue from Contracts with Customers.

IFRS 16 will replace IAS 17 Leases and its implementation guidance.

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases to ensure that lessees and lessors provide relevant information that fairly presents these operations.

IFRS 16 applies a control-based model to identify a lease, distinguishing leases from service contracts depending on whether an asset is controlled by the lessee.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.

IFRS 16 supersedes the following standards and interpretations:

- IFRIC 4 Determining whether an Arrangement Contains a Lease;
- SIC-15 Operating Leases—Incentives; and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

At the same time, this standard does not include any significant changes in the lessor accounting. The Bank is assessing the impact of IFRS 16 and plans to adopt the standard on its effective date.

IFRS 17 Insurance contracts

IFRS 17 creates one accounting model for all insurance contracts.

IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the terms and conditions of cash flows and take into account any uncertainty relating to insurance contracts.

The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims.

Insurance contracts are required to be measured on the basis of the obligations created by the contracts only.

An entity will be required to recognize profits as an insurance service is delivered, rather than on receipt of premiums.

This standard supersedes IFRS 4 Insurance contracts and is effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

This standard is not expected to have any impact on the financial statements of the Bank

Annual Improvements 2014-2016

These improvements include:

IFRS 1 First-time Adoption of IFRS

IFRS 1 has been amended to remove short-term exemptions dealing with IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IFRS 10 Consolidated Financial Statements. The reliefs provided are no longer applicable and were available to entities for reporting periods that have now passed. This annual improvement is effective for periods beginning on or after 1 January 2018.

IAS 28 Investments in Associates and Joint Ventures

IAS 28 has been amended to clarify that a venture capital organization, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds) may choose, on an investment by investment basis, to account for its investments in joint ventures and associates at fair value or using the equity method. The amendment also makes it clear that the choice of the method for each investment is to be made on initial recognition. This annual improvement must be applied retrospectively for periods beginning on or after 1 January 2018. No transitional relief is available.

These amendments are not expected to have any impact on the financial statements of the Bank.

Amendments to IAS 40 Investment Property

IAS 40 requires a property to be transferred to, or from, investment property only when there is a change in use. The amendment clarifies that a change in management's intentions for the use of a property does not in isolation provide evidence of a change in use. This is because management's intentions, alone, do not provide evidence of a change in use. An entity must, therefore, have taken observable actions to support such a change. The amendment is effective for periods beginning on or after 1 January 2018. The Bank is assessing a potential impact of this amendment on its financial statements.

Amendments to IFRS 4 – applying IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts

The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

an option that permits entities to reclassify from profit or loss to other comprehensive income part of income or expenses arising from designated financial assets (the overlay approach) and an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the deferral approach).

These amendments are effective for periods beginning on or after 1 January 2018. These improvements will not have any impact on the financial statements of the Bank.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. In addition, the interpretation should not be applied to income taxes, insurance contracts or reinsurance contracts.

For the purpose of determining the exchange rate, the date of the transaction is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, the date of the transaction is established for each payment or receipt. In other words, the related income, expense or asset should not be remeasured for changes in exchange rates occurring between the date of initial recognition of the advance consideration and the date of recognition of the transaction to which that consideration relates.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank is assessing a potential impact of this amendment on its financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes. IFRIC 23 is effective for periods beginning on or after 1 January 2019.

Annual improvements 2015-2017

These improvements include:

IFRS 3 Business Combinations

Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.

IFRS 11 Joint Arrangements

Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes

Clarification that all income tax consequences of dividends should be recognized in profit or loss, regardless of how the tax arises.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

These annual improvements are effective for periods beginning on or after 1 January 2019. These amendments are not expected to have any impact on the financial statements of the Bank.

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Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

	2017	2016
Cash	219 132	41 390
Balances with the National Bank of Ukraine	43 138	104 232
including mandatory reserves	-	59 088
Deposit certificates issued by the NBU	555 570	83 064
Correspondent accounts and overnight loans in other banks:	29 725	219 770
in Ukraine	29 725	218 274
in other countries	-	1 496
Allowance for cash impairment	(7 967)	(51 836)
Total cash and cash equivalents	**839 598**	**396 620**
For the purposes of the statement of cash flows, cash and cash equivalents	**846 908**	**389 260**
Do not include:		
Mandatory reserves with the NBU	-	(59 088)
Allowance for cash impairment	7 967	51 836
Accrued interest income on deposit certificates issued by the NBU	(570)	(64)
Accrued interest income on correspondent accounts and overnight loans in other banks	(87)	(44)

In accordance with the requirements of the National Bank of Ukraine, the Bank reserves and retains the required reserves on the correspondent account of the Bank, opened at the National Bank of Ukraine. The formation of mandatory reserves is carried out in accordance with the norms of mandatory reserve set by the National Bank of Ukraine for deposits and deposits of legal entities and individuals on demand and funds on current accounts and on time deposits and deposits (deposits) of legal entities and individuals. The amount of mandatory reserves, which must be kept daily at the beginning of the trading day on the correspondent account of the bank at the National Bank of Ukraine, must be not less than 40% of the reserve base calculated for the relevant maintenance period. As at the reporting date, 31 December 2017, the amount of required reserves that banks must hold on a correspondent account with the National Bank of Ukraine daily at the beginning of the operating day, the National Bank reduced to 0%. Thus, the Bank can quickly dispose of additional liquid funds.

Table 6.2. Analysis of the cash equivalents credit quality for the reporting period

	Correspondent accounts	Overnight loans	Deposit certificates of the NBU	Total
Neither impaired nor overdue:	29 725	-	555 570	585 295
With the National Bank of Ukraine	-	-	555 570	555 570
With 20 largest banks in Ukraine	29 725	-	-	29 725
Cash equivalents before allowance	29 725	-	555 570	585 295
Allowance	(7 967)	-	-	(7 967)
Total cash equivalents net of allowance	**21 758**	**-**	**555 570**	**577 328**

Table 6.3. Analysis of the cash equivalents credit quality for the previous period

	Correspondent accounts	Overnight loans	Deposit certificates of the NBU	Total
Neither impaired nor overdue:				
With the National Bank of Ukraine	-	-	83 064	83 064
With 20 largest banks in Ukraine	110 071	-	-	110 071

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	Correspondent accounts	Overnight loans	Deposit certificates of the NBU	Total
With other banks in Ukraine	2	108 202	-	108 204
With other banks	1 495	-	-	1 495
Cash equivalents before allowance	111 568	108 202	83 064	302 834
Allowance	(51 836)	-	-	(51 836)
Total cash equivalents net of allowance	**59 732**	**108 202**	**83 064**	**250 998**

Table 6.4. Analysis of movements in cash equivalent allowance

	2017	2016
Allowance at beginning of the period	(51 836)	(38 541)
(Increase)/decrease in allowances during the period	43 869	(13 141)
Exchange differences	-	(154)
Allowance at end of the period	**(7 967)**	**(51 836)**

Note 7. Due from other banks

Table 7.1. Due from other banks

	2017	2016
Correspondent accounts with banks:	715	-
Other country	715	-
Impairment allowance for due from other banks	(715)	-
Total due from other banks net of allowance	-	-

Table 7.2. Credit quality analysis of due from other banks in 2017

	Correspondent accounts	Total
Individually impaired amounts	715	715
without delay payment	715	715
Due from other banks before allowance	715	715
Impairment allowance of due from other banks	(715)	(715)
Total due from other banks net of allowance	-	-

Analysis of the credit quality of due from other banks in 2016 is not presented, as the Bank does not have any amounts due from other banks as the reporting date.

Table 7.3. Analysis of movements in impairment allowance of due other banks

	2017	2016
Impairment allowance at beginning of the period	-	(765)
Decrease in impairment allowance during the period	(715)	765
Impairment allowance at end of the period	**(715)**	-

Note 8. Loans to customers

Table 8.1. Loans to customers

	2017	2016
Corporate loans	3 616 661	4 262 261
Loans to sole traders	36 111	18 951
Mortgage loans to individuals	786	669
Consumer loans to individuals	14 176	188
Other loans to individuals	5 145	3 521
Loan impairment allowance	(295 197)	(142 504)
Total loans net of allowance	**3 377 682**	**4 143 086**

(in thousands of Ukrainian hryvnas unless otherwise indicated) Translated from Ukrainian original

Loans concentration by customers

As at 31 December 2017, an aggregate amount of loans issued to 10 largest customers of the Bank was UAH 2,610,580 thousand, or 77% of the loan portfolio.

As at 31 December 2016, an aggregate amount of loans issued to 10 largest customers of the Bank was UAH 2,765,099 thousand, or 67% of the loan portfolio.

The Bank does not have securities pledged as collateral of loans and advances to clients on repo transactions.

Table 8.2. Analysis of movements in the allowance for loans to customers in 2017

	Corporate loans	Loans to sole traders	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
Balance at beginning of the period	**(142 238)**	**(33)**	-	**(55)**	**(178)**	**(142 504)**
(Increase)/decrease of allowance during the period	(146 455)	**(6 141)**	-	(189)	151	(152 634)
Exchange differences	(59)	-	-	-	-	(59)
Balance at end of the period	(288 752)	**(6 174)**	-	**(244)**	**(27)**	**(295 197)**

During the reporting period, individual customers partially repaid their debt previously written off against allowances in the amount of UAH 40 thousand. This is the difference between the total cash impairment allowance (Table 6.4), due from other banks allowance (Table 7.3) allowance for loans to customers (Table 8.2) (UAH 109,480 thousand in total), from the amount of movements of cash equivalent, loans to customers and due from other banks allowances stated in the statement of profit or loss and other comprehensive income (UAH 109,440 thousand.

Table 8.3. Analysis of movements in the allowance for loans to customers in 2016

	Corporate loans	Loans to sole traders	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
Balance at beginning of the period	**(116 532)**	**(48)**	**(6)**	**(1 063)**	**(217)**	**(117 866)**
(Increase)/decrease of allowance during the period	(19 343)	17	6	1 014	39	(18 267)
Exchange differences	(6 363)	(2)	-	(6)	-	(6 371)
Balance at end of the period	**(142 238)**	**(33)**	-	**(55)**	**(178)**	**(142 504)**

During the reporting period, individual customers partially repaid their debt previously written off against allowances in the amount of UAH 21 thousand. This is the difference between the total cash impairment allowance (Table 6.4), due from other banks allowance (Table 7.3) allowance for loans to customers (Table 8.2) (UAH 37,168 thousand in total), from the amount of movements of cash equivalent, loans to customers and due from other banks allowances stated in the statement of profit or loss and other comprehensive income (UAH 37,147 thousand).

Table 8.4. Loan structure by economic activities

	2017		2016	
	amount	%	amount	%
Property transactions, lease, engineering and services	275 745	7.5	525 869	12.3
Healthcare	112 751	3.1	-	-
Trade, vehicle repair, repair of household devices and personal appliances	2 199 256	59.9	2 450 533	57.2
Agriculture, hunting and forestry	27 815	0.8	25 477	0.6
Construction	367 634	10.0	410 491	9.6
Land and pipeline transport	28 506	0.8	131 623	3.1

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	2017		2016	
	amount	%	amount	%
Hotels and similar temporary accommodation facilities operations	115 014	3.1	115 430	2.7
Manufacturing of machinery, equipment and other products	255 793	7.0	241 499	5.6
Sports, recreation and entertainment	130 256	3.5	211 465	4.9
Individuals	20 107	0.5	4 378	0.1
Other	140 002	3.8	168 825	3.9
Total loans to customers before allowance	**3 672 879**	**100**	**4 285 590**	**100**

The table presents outstanding balances of loans classified by economic activities. The main sectors of the economy credited by the Bank include trade, real estate, vehicle repair, household devices repair etc. for the purposes of credit risk minimization the Bank sets credit limits by industry, which were not exceeded during the reporting year.

Table 8.5. Loans by the type of collateral in 2017

	Corporate loans	Loans to sole traders	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
Unsecured loans	308 894	10	-	207	5 145	314 257
Loans secured by:	3 307 767	36 101	786	13 968	-	3 358 623
cash	1 522 112	18 970	-	571	-	1 541 653
property	1 419 859	14 740	786	12 829	-	1 448 213
including residential property	68 462	2 971	786	4 689	-	76 909
guarantees and warranties	21 943	2 391	-	568	-	24 903
other assets	343 853	-	-	-	-	343 853
Total loans to customers before allowance	**3 616 661**	**36 111**	**786**	**14 176**	**5 145**	**3 672 879**

During the reporting year, the Bank did not acquire financial and non-financial assets through foreclosure on pledge, or the exercise of its rights to other instruments that reduce the credit risk.

Table 8.6. Loans by the type of collateral in 2016

	Corporate loans	Loans to sole traders	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
Unsecured loans	357 642	-	-	55	3 521	361 218
Loans secured by:						
cash	1 529 419	2 912		30		1 532 361
property	1 587 071	9 801	669	103		1 597 645
including residential property	32 674		669	103		33 446
guarantees and warranties	106 336					106 336
other assets	681 792	6 238				688 030
Total loans to customers before allowance	**4 262 261**	**18 951**	**669**	**188**	**3 521**	**4 285 590**

(In thousands of Ukrainian hryvnas unless otherwise indicated) Translated from Ukrainian original

Table 8.7. Credit quality analysis in 2017

	Corporate loans	Loans to sole traders	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
Neither impaired nor overdue:	**2 310 102**	-	**493**	**6 686**	**5 100**	**2 322 380**
large borrowers with over 2 years' credit history	1 793 706	-	-	-	-	1 793 706
new large borrowers	7 361	-	-	-	-	7 361
loans to medium-sized companies	190 402	-	-	-	-	190 402
loans to small companies	318 633	-	-	-	-	318 633
Other loans to individuals	-	-	493	6 686	5 100	12 278
Individually impaired loans:	**1 277 318**	**26 002**	-	**6 735**	**14**	**1 310 069**
no overdue payments	977 500	26 002	-	6 678	14	1 010 194
31-92 days overdue	110 205	-	-	-	-	110 205
93-183 days overdue	22 978	-	-	-	-	22 978
184-366 (367) days overdue	73 673	-	-	56	-	73 730
more than 366 (367) days overdue	92 963	-	-	-	-	92 963
Loans impaired as a portfolio:	**29 241**	**10 110**	**293**	**755**	**31**	**40 431**
no overdue payments	29 241	10 110	293	571	-	40 216
overdue up to 31 days	-	-	-	-	2	2
31-92 days overdue	-	-	-	-	19	20
93-183 days overdue	-	-	-	2	9	11
184-366 (367) days overdue	-	-	-	2	0	2
more than 366 (367) days overdue	-	-	-	180	-	180
Total loans before allowance	**3 616 661**	**36 111**	**786**	**14 176**	**5 145**	**3672 879**
Allowance for loans impairment	**(288 752)**	**(6 174)**	-	**(244)**	**(27)**	**(295 197)**
Total loans net of allowance	**3 327 908**	**29 937**	**786**	**13 932**	**5 119**	**3 377 682**

The Bank's customers are classified into large, medium and small in accordance the Economic Code of Ukraine, namely, based their net income (revenue) from the sale of products (goods and services) received during the reporting period. An entity is classified as a small business if its income is less than EUR 10 million, a large business would report revenue of not less than EUR 50 million, whereas all other entities are classified as medium-sized businesses. An UAH equivalent at the NBU average annual rate is used for the classification purposes. Liabilities to the Bank include accrued income outstanding and relevant allowances are taken into account. The assignment of a certain category of quality to the borrower's liability is based on the worst-case principle, i.e. where overdue liabilities (loan or interest thereon) exist, the whole amount of the credit transaction liabilities is classified as the worst type of debt.

Table 8.8 Credit quality analysis in 2016

	Corporate loans	Loans to sole traders	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
Neither impaired nor overdue:	**3 217 435**	**2 512**	**198**	**98**	**3 322**	**3 223 565**
large borrowers with over 2 years' credit history	1 606 95	-	-	-	-	1 606 095
loans to medium-sized companies	290 704	-	-	-	-	290 724
loans to small companies	1 320 615	-	-	-	-	1 320 605
Other loans to individuals	-	2 512	198	98	3 322	6 131
Overdue but not impaired					**7**	**7**

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	Corporate loans	Loans to sole traders	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
overdue up to 31 days					7	7
Individually impaired loans:	**604 257**	**-**	**-**	**55**	**175**	**604 487**
no overdue payments	506 493	-	-	-	-	506 493
overdue up to 31 days	-	-	-	-	-	-
184-366 (367) days overdue	-	-	-	-	-	-
more than 366 (367) days overdue	97 764	-	-	55	175	97 994
Loans impaired as a portfolio:	**440 568**	**16 439**	**472**	**35**	**16**	**457 530**
no overdue payments	431 496	16 439	472	35	13	448 455
overdue up to 31 days	9 072					9 072
184-366 (367) days overdue	-	-	-	-	1	1
more than 366 (367) days overdue	-	-	-	-	2	2
Total loans before allowance	**4 262 261**	**18 951**	**669**	**188**	**3 521**	**4 285 590**
Allowance for loans impairment	**(142 238)**	**(33)**	**-**	**(55)**	**(178)**	**(142 504)**
Total loans net of allowance	**4 120 023**	**18 918**	**669**	**133**	**3 343**	**4 143 086**

Table 8.9 Impact of the collateral value on the loan quality in 2017

	Carrying amount of loans	Cash flows expected from sale of collateral	Impact of collateral
Corporate loans	3 327 909	5 337 648	(2 009 739)
Loans to sole traders	29 937	154 021	(124 084)
Mortgage loans to individuals	786	5744	(4 958)
Consumer loans to individuals	13 932	21 916	(7 984)
Other loans to individuals	5 119	-	5 119
Total loans	**3 377 682**	**5 519 329**	**(2 141 647)**

Table 8.10 Impact of the collateral value on the loan quality in 2016

	Carrying amount of loans	Cash flows expected from sale of collateral	Impact of collateral
Corporate loans	4 120 023	6 181 092	(2 061 069)
Loans to sole traders	18 918	59 024	(40 106)
Mortgage loans to individuals	669	17 910	(17 241)
Consumer loans to individuals	137	5 461	(5 324)
Other loans to individuals	3 339	-	3 339
Total loans	**4 143 086**	**6 263 487**	**(2 120 4012)**

Assets provided as collateral are evaluated by an independent certified assessor entity under Article 3 of the Law of Ukraine *On the Assessment of Property, Property Rights and on Professional Valuation Activities in Ukraine*, according to the procedure set forth by regulations referred to in Article 9 of the Law, namely evaluation regulations (national standards), approved by the Cabinet of Ministers of Ukraine, methodologies and other legal acts tailored to the requirements of regulations (national standards) and approved by the Cabinet of Ministers of Ukraine or the State Property Fund of Ukraine (namely, national standards No 1 *General Principles of Property and Property Rights Valuation*, No 2 *Real Estate Valuation*, and No 3 *Valuation of Integral Property Complexes* and other documents).

The value of assets provided as collateral is reviewed (updated) by an independent assessor entity taking into account changing conditions in the market for these assets and/or the condition of the assets, but at least once every twelve months for real estate, equipment and vehicles, and every six months for other assets using comparative, expenditure and income approaches (separately), and any combination thereof.

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Table 8.11 Information on the total amount of minimum lease payments receivable by the lessor under a finance lease and their present value for 2017

	Less than 1 year	From 1 to 5 years	More than 5 years	Total
The total amount of minimum lease payments receivable by the lessor under a finance lease (as at 31 December 2017)	27 082	-	-	27 082
Unearned finance income	869	-	-	869
Allowance for lease losses	(5)	-	-	(5)
The present value of minimum lease payments receivable by the lessor under a finance lease by the end of 2017	2 257	-	-	2 257

Note 9. Securities available for sale

Table 9.1. Securities available for sale

	2017	2016
Debt securities:	48 030	-
government bonds	48 030	-
Financial investments in companies	784	784
Impairment allowance financial investments in companies	(784)	(784)
Total financial investments in companies net of allowance	48 030	-

The Bank did not transfer without derecognition any securities as collateral under repo transactions.

Note 10. Property, equipment and intangible assets

Table 10.1. Property, equipment and intangible assets

Acquisitions, transfers, reclassifications and disposals of property and equipment are carried at book value.

Item	*Land plots*	*Building, constructions and transmitting facilities*	*Machinery and equipment*	*Transport vehicles*	*Fixtures and fittings (furniture)*	*Other property and equipment*	*Other non-current tangible assets*	*Work in progress on property, equipment and intangible assets*	*Intangible assets*	*Total*
Carrying value in 2015	**232**	**17 291**	**1 502**	**1 162**	**432**	**471**	-	**119**	**2 692**	**23 901**
Cost or valuation	232	22 259	11 436	1 975	3 772	1 795	1 170	119	4 550	47 308
Accumulated depreciation	-	(4 968)	(9 934)	(813)	(3 340)	(1 324)	(1 170)	-	(1 858)	(23 407)
Additions	-	-	449	-	57	-	221	607	257	1 591
Capital investments into completion of property and equipment and improvement of intangible assets	-	-	363	-	-	33	15	(726)	315	-
Disposals	-	-	(2)	-	-	(5)	-	-	-	(7)
Amortization and depreciation charges	-	(989)	(498)	(378)	(249)	(54)	(236)	-	(570)	(2 974)
Amortization and depreciation write-off on disposal	-	-	(181)	-	(7)	(6)	(32)	-	(59)	(285)
Carrying value as at 31 December 2016.	**232**	**16 302**	**1 814**	**784**	**240**	**445**	-	-	**2 694**	**22 511**
Cost or valuation	232	22 259	12 065	1 975	3 822	1 817	1 374	-	5 063	48 607
Accumulated depreciation and amortization at beginning of previous year	-	(5 957)	(10 251)	(1 191)	(3 582)	(1 372)	(1 374)	-	(2 369)	(26 096)
Additions	-	4	3 024	-	1 352	340	2 266	31 941	35	38 962
Capital investments into completion of property and equipment and improvement of intangible assets	-	96	3 818	-	465	534	2 696	(30 587)	25	(22 953)

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Item	*Land plots*	*Building, constructions and transmitting facilities*	*Machinery and equipment*	*Transport vehicles*	*Fixtures and fittings (furniture)*	*Other property and equipment*	*Other non-current tangible assets*	*Work in progress on property, equipment and intangible assets*	*Intangible assets*	*Total*
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	(2)	-
Disposals (residual value of assets written off)	(145)	(990)	(14)	-	(6)	(20)			(2)	(1 177)
Amortization and depreciation charges	-	(989)	(837)	(250)	(270)	(60)	(3 354)	-	(619)	(6 379)
Amortization and depreciation write-off on disposal	-	(202)	(228)	-	(154)	(52)	(115)		(3)	(754)
Carrying value as at 31 December 2017	**87**	**14 421**	**7 805**	**534**	**1 781**	**1 239**	**1 608**	**1 354**	**2 133**	**30 962**
Cost or valuation	87	21 165	18 665	1 975	5 479	2 619	6 221	1 354	5 118	62 683
Accumulated depreciation and amortization at end of reporting period	-	(6 744)	(10 860)	(1 441)	(3 698)	(1 380)	(4 613)		(2 985)	(31 721)

As at 31.12.2017:

The Bank does not have property, equipment or intangible assets with legal restrictions on their possession, use and disposal.

The Bank has no property and equipment pledged as collateral.

The Bank does not have temporarily disused property and equipment (due to conservation, reconstruction, etc.).

The Bank has no property and equipment held for sale.

The cost of fully depreciated (amortized) non-current assets was UAH 43,055 thousand (UAH 15,402 thousand in 2016).

The Bank has no intangible assets with proprietary limitations.

The Bank has no internally intangible assets.

The Bank did not have any revaluation loss or surplus during the reporting period, and loss or surplus resulting from impairment losses recognized or reversed directly in equity

Note 11. Other financial assets

Table 11.1. Other financial assets

	2017	**2016**
Receivables from customers	306	302
Receivables from banks	14 188	860
Receivables on payment card transactions	5 367	3 434
Receivables from operations with other financial instruments	212	-
Restricted cash	15 748	11 628
Other financial assets	5 611	1 574
Impairment allowance for other financial assets	(1 212)	(939)
Total other financial assets net of allowance	**40 220**	**16 859**

Restricted cash includes balances on the account *Due to bank in settlements*, where the security deposit with PJSC *Bank Pivdennyi and PJSC "BANK FAMILNY"* is recorded to ensure the performance under the contract to support VISA membership.

Table 11.2. Analysis of movements in allowance for impairment of other financial assets in 2017

	Receivables from banks	Other financial assets	Total
Balance at beginning of the period	**(860)**	**(79)**	**(939)**
(Increase)/decrease of the allowance for impairment during period	110	(384)	(274)
Balance at end of the period	**(750)**	**(463)**	**(1 213)**

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Table 11.3. Analysis of movements in allowance for impairment of other financial assets in 2016

	Receivables from banks	Other financial assets	Total
Balance at beginning of the period	-	(2)	(2)
(Increase)/decrease of the allowance for impairment during period	(860)	(77)	(937)
Balance at end of the period	**(860)**	**(79)**	**(939)**

Table 11.4. Analysis of other financial assets credit in 2017

	Receivables from banks	Receivables on payment card transactions	Derivatives in the available for sale portfolio	Restricted cash	Other financial assets	Total
Neither impaired nor overdue:	**13 439**	**5 367**	-	**15 748**	**5 892**	**40 446**
large borrowers with over 2 years' credit history	13 439	-	-	15 748	2 619	31 806
medium entities	-	-	-	-	3 235	3 235
small entities	-	5 367	-	-	38	5 405
Individually impaired debt	**749**	-	**212**	-	**25**	**986**
overdue up to 31 day	-	-	-	-	5	5
32-92 days overdue	-	-	53	-	3	56
93-183 days overdue	-	-	140	-	5	145
184-365 (366) days overdue	-	-	-	-	8	8
over 366 days overdue	749		19	-	4	772
Total other financial assets before allowance	**14 188**	**5 367**	**212**	**15 748**	**5 917**	**41 432**
Impairment allowance for other financial assets	**(749)**	-	**(180)**	-	**(283)**	**(1 212)**
Total other financial assets net of allowance	**13 439**	**5 367**	**32**	**15 748**	**5 634**	**40 220**

Table 11.5. Analysis of other financial assets credit in 2016

	Receivables from banks	Receivables on payment card transactions	Derivatives in the available for sale portfolio	Restricted cash	Other financial assets
Neither impaired nor overdue:	-	**3 434**	**11 628**	**1 850**	**16 912**
large borrowers with over 2 years' credit history	-	-	11 628	303	11 931
small entities	-	3 434	-	1 547	4 981
Individually impaired debt	**860**	-	-	**26**	**886**
32-92 days overdue	-	-	-	13	13
93-183 days overdue				2	2
184-365 (366) days overdue	860	-	-	10	870
over 366 days overdue	-	-	-	1	1
Total other financial assets before allowance	860	**3 434**	11 628	1 876	**17 798**
Impairment allowance for other financial assets	(860)	-	-	(79)	(939)
Total other financial assets net of allowance	-	**3 434**	**11 628**	**1 797**	**16 859**

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Note 12. Other assets

Table 12.1. Other assets

	2017	2016
Receivables for assets acquired	2 282	28
Prepaid services	1 244	9
Precious metals	402	56
Other assets, including	3 546	868
Deferred expenses	3 307	726
Allowance	(1 782)	(2)
Total other assets net of allowance	**5 692**	**959**

Deferred expenses as at 31.12.2017 include UAH 2 468 thousand for lease, UAH 165 thousand for audit, UAH 175 thousand for utilities, UAH 119 thousand for future period vacations, and as at 31.12.2016 include UAH 227 thousand for lease, UAH 182 thousand for audit, UAH 143 thousand for utilities, UAH 140 thousand for future period vacations

Note 13. Due to banks

Table 13.1. Due to banks

	2017	2016
Correspondent accounts and overnight deposits with banks	-	9
Total due to banks	**-**	**9**

All due to banks principal and interest outstanding in the reporting and previous periods are paid in time according to the payment schedule.

Note 14. Due to clients

Table 14.1. Due to clients

	2017	2016
Government and public organizations:	969	263
Current accounts	969	263
Other legal entities	2 177 138	2 319 631
Current accounts	563 049	957 969
Term deposits	1 614 089	1 361 662
Individuals	1 575 223	1 209 724
Current accounts	122 719	87 940
Term deposits	1 452 504	1 121 784
Due to clients total	**3 753 330**	**3 529 618**

As at 31 December 2017 deposits of 10 largest customers with the Bank in the amount of UAH 2,231,817 thousand comprise 59% of due to customers (UAH 1,997,938 thousand and 57% as at 31 December 2016).

The carrying value of due to clients used as collateral for credit transactions and financial liabilities issued by the Bank is UAH 1,569,653 thousand as at 31.12.2017 (UAH 1,655,236 thousand as at 31.12.2016). These are term deposits of clients in the amount of UAH 1,541,082 thousand and cash collateral for financial liabilities in the amount of UAH 27,516 thousand, including UAH 1,541,082 thousand pledged as collateral of corporate loans and UAH 571 thousand – for loans to individuals (in 2016: UAH 1,655,204 thousand and UAH 32 thousand, accordingly).

Table 14.2. Due to clients structure by economic sectors

	2017		2016	
	amount	%	amount	%
Production and distribution of electricity, gas and water	9 332	0.2	4 272	0.1
Property, lease, engineering and services	20 114	0.5	184 675	5.2
Trade, vehicle repair, repair of household devices and personal appliances	673 195	17.9	732 806	20.8
Agriculture, hunting and forestry	44 789	1.2	18 940	0.5

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	2017		2016	
	amount	%	amount	%
Construction	129 027	3.4	22 402	0.6
Insurance and other financial services (reinsurance and private pension schemes)	149 710	4.0	41 318	1.2
Land and pipeline transport	10 640	0.3	418 156	11.8
Activity in administrative and support services	59 822	1.6	-	-
Arts, sports, entertainment and recreation	139 469	3.7	-	-
Mining and manufacturing	52 946	1.4	-	-
Non-residents	861 579	22.8	803 780	22.8
Individuals	1 574 184	41.7	1 209 724	34.3
Other	52 715	1.4	93 545	2.7
Total due to clients	**3 777 522**	**100**	**3 529 618**	**100**

Note 15. Financial liabilities at fair value through profit or loss

Table 15.1. Financial liabilities at fair value through profit or loss

	2017	2016
Financial liabilities at fair value through profit or loss held for trading	1 690	-
Total financial liabilities at fair value through profit or loss	1 690	-

Note 16. Debt securities in issue

Table 16.1. Debt securities in issue

	2017	2016
Deposit certificates	15 188	118 028
Total	**15 188**	**118 028**

The Bank has no assets provided as collateral for securities issued by the Bank.

Note 17 Other borrowings

Table 17.1. Other borrowings

	2017	2016
Loans from non-resident financial organizations	-	372 253
Total	**-**	**372 253**

Note 18. Provisions for liabilities

Table 18.1. Changes in provisions for liabilities in 2017

	Credit related liabilities	Total
Balance at beginning of period	1 074	907
Increase/(decrease) of provision	2 758	(167)
Using reserve	(999)	-
Balance at end of the period	**2 833**	**1 074**

Provisions for liabilities listed in the table are charged under bank guarantees granted to legal entities, and unused balances on credit lines recorded on off-balance sheet accounts

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Table 18.2. Changes in provisions for liabilities in 2016

	Credit related liabilities	Total
Balance at beginning of period	907	907
Increase/(decrease) of provision	167	167
Balance at end of the period	**1 074**	**1 074**

Note 19. Other financial liabilities

Table 19.1. Other financial liabilities

	2017	2016
Payables for other financial liabilities	3 959	3 978
Derivative financial liabilities		3 579
Expenses accrued	4 638	2 105
Other financial liabilities	3 243	45
Total other financial liabilities	**11 840**	**9 662**

Note 20. Other liabilities
Table 20.1. Other liabilities

	2017	2016
Accounts payable on taxes and charges other than income tax	7 701	6 375
Payables to the Bank employees	4 247	2 314
Payables for assets acquired	2 269	29
Deferred income	622	140
Others	4	-
Total	**14 843**	**8 858**

Note 21. Share capital and share premium

Table 21.1 Share capital and share premium

	Shares outstanding (thousands)	Ordinary shares	Total
Balance at 31 December 2015	500	500	500 000
Balance at 31 December 2016	500	500	500 000
Balance at 31 December 2017	500	500	500 000

The Bank did not issue shares during the year. In total, 500,000 ordinary registered shares with a nominal value UAH 1,000 per share were issued. Each ordinary registered share gives the shareholder one vote in all matters subject to decisions of the General Meeting of Shareholders.

Ordinary shares entitle their holders to a part of the Bank's profit as dividends, to participate in the governance of the Bank, to obtain a share in the Bank's property in case of liquidation and other rights under the Law of Ukraine On Joint Stock Companies. Ordinary shares give their holders equal rights.

Note 22. Interest income and expenses

		2017	2016
INTEREST INCOME:			
1	Loans to customers	400 721	530 451
2	Securities held to maturity	11 333	3 989
3	Due from other banks	4 728	2 087
4	Correspondent accounts with other banks	1 347	1 493
5	**Total interest income**	**418 129**	**538 020**
INTEREST EXPENSES			
6	Corporate term deposits	(85 073)	(189 007)

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		2017	2016
7	Debt securities in issue	(5 508)	(8 232)
8	Other borrowings	(2 355)	(36 308)
9	Term deposits of individuals	(120 197)	(122 744)
10	Term deposits of other banks	-	(1 523)
11	Overnight credits received from other banks	(6)	-
12	Current accounts	(35 957)	(44 380)
13	Correspondent accounts	-	(8)
14	**Total interest expenses**	**(249 096)**	**(402 202)**
15	**Net interest income/(expenses)**	**169 033**	**135 818**

Note 23. Fee and commission income and expenses

		2017	2016
FEE AND COMMISSION INCOME:			
1	Cash settlement operations	36 719	27 471
2	Securities operations	2	8
3	Trust activities	1 293	2 142
4	Granted guarantees	33 070	13 830
5	Transactions in foreign currency market	6 709	8 409
6	Credit service	10 254	2 263
7	Other	1 910	863
8	**Total fee and commission income**	**89 957**	**54 986**
FEE AND COMMISSION EXPENSES:			
8	Cash settlement operations	(7 421)	(6 922)
10	Securities operations	(88)	(88)
12	Other	(86)	(55)
13	**Total fee and commission expenses**	**(7 595)**	**(7 065)**
14	**Net fee and commission income/expenses**	**82 362**	**47 921**

Note 24. Other operating income

	2017	2016
Sublease income	-	797
Income from operating lease	647	-
Income from disposal of fixed assets and intangible assets	1 371	
Other	437	144
Total operating income	**2 455**	**941**

The Other item includes:

- For the reporting period: the return of previously accrued interest on deposits prematurely terminated in the amount of UAH 10 thousand, fines and penalties received by the Bank amounting to UAH 57 thousand, consulting service fees of UAH 26 thousand, reimbursement of communal expenses of UAH 60 thousand, agency reward of UAH 284 thousand.
- For the previous period: the return of previously accrued interest on deposits prematurely terminated in the amount of UAH 25 thousand, fines and penalties received by the Bank amounting to UAH 39 thousand, consulting service fees of UAH 67 thousand, and insurance compensation of UAH 15 thousand.

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Note 25. Administrative and other operating expenses

	2017	2016
Staff costs	(70 331)	(46 476)
Property and equipment depreciation	(2 493)	(2 168)
Amortization of software and other intangible assets	(3 886)	(806)
Maintenance of property, equipment and intangible assets, telecommunications and other operating services	(7 815)	(5 630)
Operating lease expenses	(21 689)	(8 071)
Other expenses related to property and equipment	(6 173)	(2 866)
Professional services	(2 192)	(2 483)
Marketing and advertisement expenses	(2 404)	(123)
Insurance expenses	(7 625)	(40 026)
Security costs	(2 493)	(8 122)
Encashment	(559)	(341)
Agents' commissions	-	(11 258)
Payment of taxes and charges other than income tax	(17 479)	(17 103)
Other	(20 034)	(8 131)
Total administrative and other operating expenses	**(165 173)**	**(153 604)**

Note 26. Income tax expenses

Table 26.1. Income tax expenses

	2017	2016
Current income tax	(2 202)	(1 469)
Changes of deferred income tax	92	203
Total income tax expenses/(benefits)	(2110)	(1 266)

Table 26.2. Reconciliation of the accounting profit (loss) and taxable income (loss)

	2017	2016
Profit/(loss) before taxation	11 443	9 048
Theoretical tax accruals using the applicable tax rate	(2 060)	(1 629)
ADJUSTMENT OF ACCOUNTING PROFIT (LOSS):		
Expenses not deductible for tax purposes but recognized for financial accounting purposes	(3 657)	(523)
Expenses deductible for tax purposes but not recognized for financial accounting purposes	3 515	683
Non-taxable income recognized for financial accounting purposes	(92)	(1 520)
Current income tax	**(2 110)**	**(1 266)**

In the year ended 31 December 2017, the differences between the tax and accounting profit arose due to the following factors:

Expenses not deductible for income tax purposes but recognized for financial accounting purposes in the amount of UAH 3,657 thousand, namely:

- depreciation of property and equipment and amortization of intangible assets per financial accounting records in the amount of UAH 560 thousand;
- property, equipment and intangible write-off result per financial accounting records in the amount of UAH 8 thousand;
- financial results of disposal property, equipment and intangible assets in the amount of UAH 148 thousand;
- allocation to allowances for guarantees issued in the amount of UAH 2,929 thousand;
- free of charge funds to non-profit organizations in the amount exceeding 4 percent of the tax profit of the previous financial year in the amount of UAH 12 thousand

Expenses deductible for income tax purposes but not recognized for financial accounting purposes in the amount of UAH 3,515 thousand, including:

- depreciation of property and equipment and amortization of intangible assets per tax accounting records in the amount of UAH 567 thousand;
- property, equipment and intangible write-off per tax accounting records in the amount of UAH 9 thousand;

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- the residual value of fixed assets and intangible assets according to the tax account in case of sale in the amount of UAH 183 thousand;
- the use of created reserves in the amount of UAH 624 thousand;
- adjustment of collateral, which increases the financial result before taxation in the amount of UAH 1,988 thousand;
- a portion of the negative difference between the allowance estimated according to chapter III of the Tax Code of Ukraine in the amount of UAH 144 thousand

In the year ended 31 December 2016, the differences between the tax and accounting profit arose due to the following factors:

Expenses not deductible for income tax purposes but recognized for financial accounting purposes in the amount of UAH 523 thousand, namely:

- depreciation of property and equipment and amortization of intangible assets per financial accounting records in the amount of UAH 492 thousand;
- property, equipment and intangible write-off per financial accounting records in the amount of UAH 1 thousand;
- allocation to allowances for guarantees issued in the amount of UAH 30 thousand.

Expenses deductible for income tax purposes but not recognized for financial accounting purposes in the amount of UAH 683 thousand, including:

- depreciation of property and equipment and amortization of intangible assets per tax accounting records in the amount of UAH 537 thousand;
- property, equipment and intangible write-off per tax accounting records in the amount of UAH 2 thousand;
- a portion of the negative difference between the allowances estimated according to chapter III of the Tax Code of Ukraine in the amount of UAH 144 thousand.

Table 26.3. Tax effects of the recognition of the deferred tax assets and liabilities in 2017

	Balance at beginning of the period	Recognized in profit or loss	Balance at end of the period
Tax effect of temporary differences that decrease (increase) the amount of tax and tax losses carried forward	123	92	215
Property and equipment	123	92	215
Net deferred tax assets (liabilities)	123	92	215
Deferred tax assets recognized	**123**	**92**	**215**

Table 26.4. Tax effects of the recognition of the deferred tax assets and liabilities in 2016

	Balance at beginning of the period	Recognized in profit or loss	Balance at end of the period
Tax effect of temporary differences that decrease (increase) the amount of tax and tax losses carried forward	(80)	203	123
Property and equipment	(80)	203	123
Net deferred tax assets (liabilities)	(80)	203	123
Deferred tax assets recognized	(80)	203	123

Note 27. Earnings/(loss) per ordinary share

Table 27.1. Net and adjusted earnings/(loss) per ordinary share

	2017	2016
Profit (loss) for the year	9 333	7 782
Average annual number of ordinary shares outstanding (thousands)	500	500
Net and adjusted earnings per ordinary share (UAH/share)	**18,67**	**15,56**

(in thousands of Ukrainian hryvnas unless otherwise indicated) | Translated from Ukrainian original

Table 27.2. Calculation of profit (loss) attributable to ordinary and preference shareholders of the Bank

	2017	2016
Profit/(loss) attributable to the owners of the Bank	9 333	7 782
Dividends on ordinary shares	7 393	10 869
Retained earnings/(loss) for the year	9 333	7 782
Dividends on ordinary shares payable within a year	7 393	10 869
Profit/(loss) for the year attributable to ordinary equity holders	**9 333**	**7 782**

Note 28. Dividends

	2017		2016	
	on ordinary shares	on preference shares	on ordinary shares	on preference shares
Balance at beginning of the period	-	-	-	-
Dividends payable during the period	7 393	-	10 869	-
Dividends paid during the period	7 393	-	10 869	-
Balance at end of the period	-	-	-	-
Dividends per share (UAH/share)	14,79	-	21,74	-

The General Meeting of Shareholders decides on the procedure of dividend payment according to Ukrainian law and the Charter of the Bank. The same amount of dividends is accrued on each ordinary share.

Dividends are paid once a year following the result of the calendar year. Dividends are paid from net income of the reporting year and/or retained earnings in the amount set by the General Meeting of Shareholders.

Dividends to shareholders are paid once in its full amount within the period set by the General Meeting of Shareholders in their decision on dividend payment. Dividends are paid within six months after the reporting year end.

Note 29. Operating segments

Table 29.1. Income, expenses and results of reporting segments in 2017

	Services to corporate clients	Services to individuals	Interbank business	Other segments and operations	Elimination	Total
Income from third party clients:						
Interest income	398 934	1 786	6 075	11 333	-	418 128
Fee and commission income	58 829	27 812	3 316	-	-	89 957
Other operating income	323	46	-	717	-	1 086
Income from other segments	-	-	-	1 370	-	1370
Total segment income	**458 086**	**29 644**	**9 391**	**13 420**	**-**	**510 541**
Interest expenses	(118 442)	(128 293)	(6)	(2 355)	-	(249 096)
Allocation to allowance for impairment of loans and due from other banks	(152 616)	22	43 154	-	-	(109 440)
Allocation to allowance for impairment of accounts receivable	-	-	111	(2 165)	-	(2 054)
Results of trade in other financial instruments	-	-	-	18 132	-	18 132
Gain on revaluation of derivatives	-	-	-	3 326	-	3 326
Gains on trading in foreign currencies	-	-	14 906	-	-	14 906
Foreign currency transactions translation results	-	-	654	-	-	654
Fee and commission expenses		(6 005)	(1 416)	(174)	-	(7 595)

(in thousands of Ukrainian hryvnas unless otherwise indicated) | Translated from Ukrainian original

	Services to corporate clients	Services to individuals	Interbank business	Other segments and operations	Elimination	Total
Allocation to provisions for liabilities	(2 952)	194	-	-	-	(2 758)
Administrative and other operating expenses	(7 625)	-	-	(157 548)	-	(165 173)
Income tax expense	-	-	-	(2 110)	-	(2 110)
SEGMENT RESULT: Profit	**176 451**	**(104 438)**	**66 794**	**(129 474)**	**-**	**9 333**

Table 29.2. Income, expenses and results of reporting segments in 2016

	Services to corporate clients	Services to individuals	Interbank business	Other segments and operations	Elimination	Total
Income from third party clients:						
Interest income	528 515	1 937	3 580	3 988	-	538 020
Fee and commission income	42 110	9 630	3 246	-	-	54 986
Other operating income	80	72	-	811	-	963
Total segment income	**570 704**	**11 640**	**6 826**	**4 800**	-	**593 970**
Interest expenses	(230 240)	(134 123)	(1 531)	(36 308)	-	(402 202)
Allocation to allowance for impairment of loans and due from other banks	(24 405)	(233)	(12 531)	-	-	(37 169)
Allocation to allowance for impairment of accounts receivable	-	-	(860)	(67)	-	(927)
Results of trade in other financial instruments	-	-		(10 310)	-	(10 310)
Gains on trading in foreign currencies	-	-	8 699	-	-	8 699
Foreign currency transactions translation results	-	-	17 824	-	-	17 824
Fee and commission expenses	-	(3 851)	(3 070)	(143)	-	(7 065)
Allocation to provisions for liabilities	(167)	-	-	-	-	(167)
Administrative and other operating expenses	(40 026)	-	-	(113 578)	-	(153 604)
Income tax expense				(1 266)		(1 266)
SEGMENT RESULT: Profit	**275 865**	**(126 567)**	**(11 167)**	**(130 349)**	**-**	**7 782**

Table 29.3. Assets and liabilities of reporting segments in 2017

	Services to corporate clients	Services to individuals	Interbank business	Other segments and operations	Total
SEGMENT ASSETS					
Segment assets	3 363 778	25 203	697 683	-	4 086 664
Total segment assets	3 363 778	25 203	697 683	-	4 086 664
Unallocated assets	-	-	-	256 001	256 001
Total assets	**3 363 778**	**25 203**	**697 683**	**256 001**	**4 342 665**

(In thousands of Ukrainian hryvnas unless otherwise indicated) Translated from Ukrainian original

	Services to corporate clients	Services to individuals	Interbank business	Other segments and operations	Total
SEGMENT LIABILITIES					
Segment liabilities	2 211 579	1 571 611	1 690	-	3 784 880
Total segment liabilities	2 211 580	1 571 611	1 690	-	3 784 880
Unallocated liabilities	-	-	-	14 898	14 898
Total liabilities	**2 211 580**	**1 571 611**	**1 690**	**14 898**	**3 799 779**
OTHER SEGMENT ITEMS					
Capital investment	-	-	-	38 962	38 962
Depreciation and amortization	-	-	-	(6 379)	(6 379)

Table 29.4. Assets and liabilities of reporting segments in 2016

	Services to corporate clients	Services to individuals	Interbank business	Other segments and operations	Total
SEGMENT ASSETS					
Segment assets	4 138 941	4 145	366 858	-	4 509 944
Total segment assets	4 138 941	4 145	366 858	-	4 509 944
Unallocated assets	-	-	-	70 540	70 540
Total assets	**4 138 941**	**4 145**	**366 858**	**70 540**	**4 580 484**
SEGMENT LIABILITIES					
Segment liabilities	2 692 147	1 327 752	9	-	4 019 908
Total segment liabilities	2 692 147	1 327 752	9	-	4 019 908
Unallocated liabilities	-	-	-	19 594	19 594
Total liabilities	**2 211 580**	**1 571 611**	**9**	**19 594**	**4 039 502**
OTHER SEGMENT ITEMS					
Capital investment	-	-	-	1 591	1 591
Depreciation and amortization	-	-	-	(2 974)	(2 974)

For the purposes of financial reporting the Bank operations are allocated to the following segments:

Services to corporate clients: this business segment services current accounts of corporate clients, raises funds, attracts deposits, provides overdraft facilities, services card accounts, provides loans and other types of finance and effects foreign currency transactions.

Services to individuals: provision of banking services to private individuals. This segment provides the same banking services as the corporate segment as well as opening and servicing of individual client accounts, including accounts for personal use, current and saving accounts, placement of deposits and servicing of payment cards for remuneration projects.

Interbank business: interbank market transactions, transactions with securities issued by the NBU and foreign currency transactions.

Other segments and operations: this includes transactions that support the Bank's operation, property, equipment and intangible assets, deferred tax assets, prepayments and receivables related to the administrative and business operations of the Bank.

Table 29.5. Information on geographical regions

	2017			2016		
	Ukraine	Other countries	Total	Ukraine	Other countries	Total
Revenue from external clients	509 171	-	509 171	593 970	-	593 970
Property and equipment	25 867	-	25 867	19 817	-	19 817

Note 30. Financial risk management

The goals of financial risk management in the Bank are:

1) to ensure the profitability of operations under moderate risk levels;

2) adherence to all requirements of the National Bank of Ukraine on risk management;

3) alignment of risk management standards with the guidelines of Basel Committee (in particular, changes in regulations of risk management in the Bank provide for a gradual transition from Basel I to Basel II-III).

The risk management system in the Bank is designed to engage all management levels: the Supervisory Board determines the Bank development strategy, including risk management; the Bank Management Board is responsible for daily management of the Bank's operations, which includes, but is not limited to, maintaining the moderate level of risks; the Analysis and Risk Management Department provides direct analysis, monitoring and control of risks with the most significant impact on the Bank's performance.

In addition, collegial bodies (a Credit Committee, an Asset and Liability Management Committee, a Tariff Committee, and a Tender Committee) are established on a permanent basis and operating in the Bank. Their tasks include operational decisions on tactical objectives of risk management.

The level of the Bank's risk management system fully conforms to the scope and complexity of transactions performed. The Bank uses the Asset and Liability Analyzer, a modern analytical module that automatically creates management reports for management on principal risk types. As a result, prompt decisions can be taken to minimize any adverse effect of risks on the Bank financial performance.

Financial risks managed by the Bank on a systematic (daily) basis include the traditional risks like credit risk, market risk (interest rate, currency and price risks) and liquidity risk.

Credit risk

Credit risk (the most significant risk among all) is the risk that a borrower fails to repay the loan and interest thereon. This risk is minimized through clear credit procedures for credit operations and deliberate techniques implemented by the Bank to analyses a borrower's solvency, as well as through lending primarily under the liquid collateral (property, property rights for cash deposits of banks etc.).

Methods used by the Banks for risk management include: setting limits on credit operations (for a borrower, an industry, related parties etc.); adherence to economic standards of the NBU (standards of credit risk); the use of modern methods for the analysis of borrowers' operations; setting credit ratings according to the Bank's own scale on the basis of the borrowers' financial stability; insurance of collateral and financial risks; the use of different measurement methods of the collateral market value (profit, expense methods and the method of analogues); stress testing of the credit portfolio taking into account the changes in the business environment).

Furthermore, the Bank set limits of the branches' authority, within which the Credit Commissions at branches may lend to their own clients. All credit operations beyond these limits are approved by the Credit Commission at the Head Office.

In the course of credit operations, the Bank complies with credit risk standards established by the National Bank of Ukraine (the *Instruction on the Regulation of Banks in Ukraine*, approved by the National Bank of Ukraine on 28.08.2001 No 368):

— maximum credit risk amount per one counterparty (H7);

— large credit risks (H8). Credit risk taken in respect of one counterparty or a group of related counterparties is considered large if the total claims to this counterparty or the group of related counterparties and all off-balance sheet commitments granted by the Bank to the counterparty or the group of related counterparties exceeds 10% of the Bank's regulatory capital;

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The values of credit risk standards (H7, H8 and H9) are calculated according to the requirements of the National Bank of Ukraine and are monitored by the Bank management on a daily basis. As at 31.12.2017, they were as follows: H7 – 23.25% (the standard is 25% maximum), H8 – 299,07% (the standard is 800% maximum), and H9 – 261.09% (the standard is 25% maximum) (in 2016: H7 – 21.25%, H8 – 424.85%, and H9 – 306.42%).

The National Bank of Ukraine approved a 3-year Action Plan for the Bank to bring its operations to conformity with the requirements of legislation and the regulations of the National Bank of Ukraine with regard to related party transactions, namely, to bring H9 indicator to its standard value. The Bank adheres to the Action Plan

The maximum credit risk of the Bank is as follows:

	2017	2016
Statement of financial position		
Cash and cash equivalents (excluding cash on hand)	839 379	355 230
Due from other banks	-	-
Loans and advances to customers	3 377 682	4 143 086
Other financial assets	40 220	16 859
	4 257 281	**4 432 110**
Off balance-sheet items		
Credit related commitments	481 110	390 349
Guarantees	704 168	470 144
	1 185 278	**860 493**

The Bank monitors credit quality of its financial assets through the implementation of internal and external credit ratings of borrowers. Credit quality by type of assets regarding credit related items in the statement of financial position on the basis of external rating and the credit rating system implemented in the Bank, is disclosed in Notes 7, 8 and 9.

Market risk

Market risk is the risk of unforeseen losses of the Bank arising from adverse changes in interest rates, foreign exchange rates, share prices, etc. Under the classification of the Basel Committee, market risks comprise currency risk, interest rate risk and price risk. Market risk under the above classification is managed centrally by the Risk Management Department using modern methods of measuring, assessment and control their level. The reports on market risk are provided to the Asset and Liability Management Committee that subsequently makes decisions on adjustment of risk positions taking into account expected/forecast levels of exchange rates, interest rates and security prices.

The Bank activities are mostly affected by currency and interest rate risks, whereas price risk does not actually exist, because at the end of 2017, the Bank has insignificant balances of variable income securities purchased earlier (UAH 784 thousand).

Currency risk

Currency risk (the market component of risk) is the risk of existing or potential effects of adverse fluctuations of exchange rates and precious metal values on the Bank's proceeds. The Bank minimizes this risk through strict adherence to the currency position limits in the course of foreign exchange transactions.

The methods used by the Bank for its currency risk management include VAR methodology, setting limits of maximum amounts of a currency position, adherence to economic standards of the NBU (currency risk standards), currency risks hedges, back testing, and stress testing under various scenarios of financial market development.

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Table 30.1. Currency risk

	2017				2016			
	Monetary assets	Monetary liabilities	Derivatives	Net position*	Monetary assets	Monetary liabilities	Derivatives	Net position*
US dollar	2 136 455	2 287 158	124 616	(26 087)	2 790 920	2 639 749	(160 426)	(9 254)
Euro	465 049	236 225	(261 264)	(32 440)	587 821	600 386	-	(12 565)
Precious metals	402	-	-	402	55	-	-	55
Other currencies (convertible)	119	42	-	77	488	76	-	412
Other currencies (non-convertible)	267	557	-	(290)	1 656	992	-	672
Total*	**2 602 292**	**2 523 982**	**(136 648)**	**(58 338)**	**3 380 940**	**3 241 203**	**(160 426)**	**(20 680)**

The Net Position graph shows the total position on all currencies.
Precious metals: gold – (398), silver – 4.
Other currencies (freely convertible): British pounds sterling – (54), Swiss francs – 23.
Other currencies (non-convertible): Russian roubles – 463, Polish złoty –173.

Table 30.2. Change of profit or loss and equity as a result of possible changes in hryvnia official exchange rate to foreign currencies set on the reporting date, all other variable characteristics remaining fixed

	2017		2016	
	impact on profit/(loss)	impact on equity	impact on profit/(loss)	impact on equity
USD appreciation by 20%	(5 217)	(5 217)	(1 851)	(1 851)
USD depreciation by 20%	5 217	5 217	1 851	1 851
Euro appreciation by 20%	(6 488)	(6 488)	(2 513)	(2 513)
Euro depreciation by 20%	6 488	6 488	2 513	2 513
GBP appreciation by 20%	(10)	(10)	74	74
GBP depreciation by 20%	10	10	(74)	(74)
Appreciation of other currencies and banking metals	27	27	154	154
Appreciation of other currencies and banking metals	(27)	(27)	(154)	(154)

Table 30.3. Change of profit or loss and equity as a result of possible changes in hryvnia weighted average annual exchange rate to foreign currencies set on the reporting date, all other variable characteristics remaining fixed

	Weighted average exchange rate			
	2017		2016	
	impact on profit/(loss)	impact on equity	impact on profit/(loss)	impact on equity
USD appreciation by 20%	(4 943)	(4 943)	(1 181)	(1 181)
USD depreciation by 20%	4 943	4 943	1 181	1 181
Euro appreciation by 20%	(5 819)	(5 819)	(2 444)	(2 444)
Euro depreciation by 20%	5 819	5 819	2 444	2 444
GBP appreciation by 20%	10	10	92	92
GBP depreciation by 20%	(10)	(10)	(92)	(92)
Appreciation of other currencies and banking metals	23	23	98	98
Appreciation of other currencies and banking metals	(23)	(23)	(98)	(98)

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Interest rate risk

Interest rate risk is the risk of existing or potential effects of adverse fluctuations in the interest rates on the Bank proceeds. This risk is minimized through balancing assets and liabilities sensitive to changes in the interest rate.

The methods used by the Bank in the interest rate risk management include GAP analysis and setting the limits on maximum gaps between assets and liabilities sensitive to changes in the interest rate, managing the structure of assets and liabilities using spread indicators, net interest margin, profitability/cost of individual interest-bearing assets/liabilities (by currency); implementing a balanced pricing policy to maximize net interest income, and stress testing under various scenarios of financial market development.

Table 30.4. General analysis of the interest risk

	On demand and less than 1 month	1-6 months	6-12 months	More than 1 year	Not prone to interest rate risk	Total
2017						
Total financial assets	1 680 931	535 725	914 350	1 044 600	167 059	4 342 665
Total financial liabilities	1 695 832	752 509	279 598	1 036 224	35 616	3 799 779
Net interest rate gap at end of the reporting period	(14 900)	(216 785)	634 752	8 377	131 442	542 887
2016						
Total financial assets	2 077 684	637 861	516 658	910 882	437 398	4 580 484
Total financial liabilities	2 581 638	1 250 655	120 370	67 236	19 603	4 039 502
Net interest rate gap at end of the previous period	**(503 954)**	**(612 794)**	**396 289**	**843 646**	**417 795**	**540 982**

The table shows interest rate sensitive assets and liabilities at book value and maturity terms.

Interest on all assets and liabilities presented in the table is accrued at fixed rates.

Table 30.5. Monitoring of interest rates on financial instruments

(%)

	2017				2016			
	UAH	USD	EUR	Other	UAH	USD	EUR	Other
Assets								
Cash and cash equivalents	11,66	0,06	-	-	11,69	0,29	0,00	-
Due from other banks	10,59	0,02	0,29	5,17	14,93	0,76	2,00	-
Loans to customers	15,45	9,92	9,42	-	16,10	10,74	9,51	-
Liabilities								
Due to banks	11,53	-	-	-	18,05	0,03	-	-
Due to clients:								
current accounts	4,85	4,01	-	-	5,38	4,54	-	-
term deposits	15,03	6,94	5,94	-	20,88	9,40	6,09	-
Debt securities in issue	0	7,82	7,61	-	21,32	9,93	-	-
Other borrowings	-	-	-	-	13,50	9,80	-	-

Information in the table is presented at the average interest rate. The interest rate is calculated as annualized percentage.

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Geographical risk

Table 30.6. Analysis of geographical concentration of financial assets and liabilities in 2017

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	839 598	-	-	839 598
Due from other banks	-	-	-	-
Loans to customers	3 377 682	-	-	3 377 682
Other financial assets	40 220	-	-	40 220
Total Liabilities **assets**	**4 257 500**	-	-	**4 257 500**
Due to banks				
Due to clients	-	-	-	-
Financial liabilities measured at fair value through profit or loss	2 891 720	405	861 205	3 753 330
Debt securities in issue	1 690	-	-	1 690
Other borrowings	15 021	167	-	15 188
Other financial liabilities	-	-	-	-
Total financial liabilities	11 840	-	-	11 840
Net balance position on financial instruments	**2 920 271**	**572**	**861 205**	**3 782 048**
Credit related liabilities	**1 337 229**	**(572)**	**(861 205)**	**475 452**
Due to banks	1 268 144	-	-	1 268 144

Geographical risk concentrations are determined by an analysis of assets and liabilities for their origin (place of registration). Institutions that operate in different economic environments caused by various political, regulatory and legal economic conditions are geographic risk sensitive. A wrong choice of cash flow direction can lead to financial losses.

As the Bank operates on the territory of Ukraine only, geographical risk is considered insignificant, i.e. it has no impact on profit and equity of the Bank.

Table 30.7. Analysis of geographical concentration of financial assets and liabilities in 2016

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	395 282	-	1 338	396 620
Due from other banks	-	-	-	-
Loans to customers	4 143 086	-	-	4 143 086
Other financial assets	16 859	-	-	16 859
Total Liabilities **assets**	**4 555 227**	-	**1 338**	**4 556 565**
Due to banks				
Due to clients	9	-	-	9
Financial liabilities measured at fair value through profit or loss	2 725 807	23	803 788	3 529 618
Debt securities in issue	3 579	-	-	3 579
Other borrowings	118 028	-	-	118 028
Other financial liabilities	-	-	372 253	372 253
Total financial liabilities	6 083	-	-	6 083
Net balance position on financial instruments	**2 853 506**	**23**	**1 176 041**	**4 029 570**
Credit related liabilities	**1 701 721**	**(23)**	**(1174 703)**	**526 995**
Due to banks	1 001 854	-	-	1 001 854

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Liquidity risk

Liquidity risk is the risk that the Bank will not be able to discharge its liabilities to the clients and counterparties on a timely basis and in full. This risk is minimized through balancing of the Bank's structure of assets and liabilities by repayment/maturity dates (including the balancing by basic currencies used by the Bank in its transactions).

The methods used by the Banks in liquidity risk management include GAP analysis and setting limits of maximum gaps of liquidity, using a payment schedule, adherence to the liquidity ratios (including mandatory economic standards of the NBU and mandatory standards for allowances), diversification of assets and liabilities, maintaining an operational emergency action plan, stress testing of the Bank liquidity positions under various scenarios of financial market development.

Table 30.8. Maturity analysis of financial liabilities in 2017d

	On demand and less than 1 month	1-3 months	3-12 months	12 months to 5 years	Over 5 years	Total
Due to banks	-	-	-	-	-	-
Due to clients	1 516 648	305 821	955 393	1 299 669	-	4 077 531
Other borrowings	-	-	-	-	-	-
Other financial liabilities	11 840	-	-	-	-	11 840
Financial guarantees	199 399	214 180	280 434	14 317	-	708 330
Other credit related liabilities	12 106	-	85 699	-	-	97 805
Total potential future payments on financial liabilities	**1 739 993**	**520 001**	**1 321 526**	**1 313 986**	**-**	**4 895 506**

Maturities are determined between the reporting date and the date of settlement according to contracts. The amounts represent contractual undiscounted cash flows, which differ from amounts shown in the statement of financial position as the amounts therein are based on discounted cash flows.

Table 30.9. Maturity analysis of financial liabilities in 2016

	On demand and less than 1 month	1-3 months	3-12 months	12 months to 5 years	Over 5 years	Total
Due to banks	9	-	-	-	-	9
Due to clients	2 207 582	1 062 713	228 893	91 441	-	3 590 629
Other borrowings	374 786	-	-	-	-	374 786
Other financial liabilities	9 662	-	-	-	-	9 662
Financial guarantees	133 621	130 548	187 569	18 406	-	470 144
Other credit related liabilities	25 277	-	83 023	-	-	108 300
Total potential future payments on financial liabilities	**2 750 928**	**1 193 261**	**499 485**	**109 847**	**-**	**4 553 521**

Table 30.10. Maturity analysis of financial liabilities based on expected maturities in 2017

	On demand and less than 1 month	1-3 months	3-12 months	12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	839 598	-	-	-	-	839 598
Due from other banks	-	-	-	-	-	-
Loans to customers	733 750	275 008	1 319 769	995 274	53 881	3 377 682

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Other financial assets	23 863	15 805	6	545	-	40 219
Total financial assets	**1 597 211**	**290 813**	**1 319 775**	**995 819**	**53 881**	**4 257 499**
Liabilities						
Due from other banks	-	-	-	-	-	-
Due to clients	1 516 648	299 824	888 737	1 048 120	-	3 753 329
Debt securities in issue	13 769	192	1 226	-	-	15 187
Other borrowings	-	-	-	-	-	-
Other financial liabilities	11 840	-	-	-	-	11 840
Total financial liabilities	**1 542 257**	**300 016**	**889 963**	**1 048 120**	**-**	**3 780 356**
Net liquidity gap as at 31 December	**54 954**	**(9 203)**	**429 812**	**(52 301)**	**53 881**	**477 143**
Total liquidity gap as at 31 December	**54 954**	**45 751**	**475 563**	**423 262**	**477 143**	**477 143**

Financial assets and liabilities in the table are presented at carrying values, i.e. based on discounted cash flows.

Table 30.11 Maturity analysis of financial liabilities based on expected maturities in 2016

	On demand and less than 1 month	1-3 months	3-12 months	12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	396 620	-	-	-	-	396 620
Due from other banks	-	-	-	-	-	-
Loans to customers	2 077 684	407 372	747 147	864 653	46 229	4 143 086
Other financial assets	5 231	11 628	-	-	-	16 859
Total financial assets	**2 479 535**	**419 000**	**747 147**	**864 653**	**46 229**	**4 556 565**
Liabilities						
Due from other banks	9	-	-	-	-	9
Due to clients	2 207 582	1 041 875	212 924	67 236	-	3 529 618
Debt securities in issue	1 802	24 339	91 887	-	-	118 028
Other borrowings	372 253	-	-	-	-	372 253
Other financial liabilities	9 662	-	-	-	-	9 662
Total financial liabilities	**2 591 309**	**1 066 214**	**304 811**	**67 236**	**-**	**4 029 570**
Net liquidity gap as at 31 December	**(111 774)**	**(647 214)**	**442 336**	**797 417**	**46 229**	**526 995**
Total liquidity gap as at 31 December	**(111 774)**	**(758 987)**	**(316 651)**	**480 766**	**526 995**	**526 995**

Note 31. Capital management

Capital management of the Bank is aimed primarily at the protection from possible risks inherent in its activities The Bank controls its capital adequacy through both the adherence to mandatory economic standards of the National Bank of Ukraine (capital ratios) and recommended indices established by the Basel Capital Accord. In particular, the Bank calculates its capital adequacy quarterly in accordance with the recommendations of the Basel II (quantitative measurement of credit, market and operational risk carried out according to the Standardized Approach).

The main objective of the Bank capital management is to ensure balanced growth of assets and regulatory capital. In particular, the Bank policy related to active and passive operations, a great attention is paid to the improvement of the risk weighted assets structure considering the risk ratio (to prevent an excessive proportion of assets weighed on 100% risk). Furthermore, in order to improve capitalization (if necessary) the Bank may refuse to pay dividends to its shareholders and/or to provide for an increase in regulatory capital either by contributions to the share capital, or by raising subordinated debt. In addition, the Bank is working constantly in order to minimize deviations from regulatory capital: it work on the recovery of overdue income and the prevention of positive liquidity gaps exceeding one year etc.

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The capital adequacy standard according to the requirements of the National Bank of Ukraine

The National Bank of Ukraine requires the banks to maintain their capital adequacy rate of 10% of risk-weighted assets. The table below shows the Bank capital adequacy rate, calculated as at 31 December 2017 and 2016. During the reporting year and the previous year, the Bank met all capital standards set by the National Bank of Ukraine.

Table 31.1. Regulatory capital structure

	2017	2016
Bank regulatory capital (RC)	560 283	612 368
Actually paid registered share capital	500 000	500 000
Disclosed reserves created or increased and charged to retained earnings:	33 589	33 200
General reserves and reserve funds created according to the law of Ukraine	*33 589*	*33 200*
Of which reserve funds	*33 589*	*33 200*
Reduction of non-current assets (the amount of understated reserves, intangible assets net of amortization, capital investments in intangible assets, losses in the current and previous years)	(2 525)	(2 694)
including:		
Intangible assets net of amortization	(2 125)	(2 694)
Capital investments in intangible assets	(400)	-
Property and equipment (FA) (Tier 1)	**531 064**	**530 505**
Allowances for standard loans to clients, and standard debts on off-balance operations	-	47 979
Estimated profit for the current year	57 819	33 884
Uncovered credit risk	(28 600)	
Additional capital (Tier 2)	29 219	81 863
Total regulatory capital	**560 283**	**612 368**
Risk weighted assets	4 494 808	3 368 261
Total open currency position on all foreign currencies	20 815	4 860
Regulatory adequacy capital (at least 10% per standard)	**18,97%**	**18,15%**

Note 32. Trust management accounts

	2017	2016	Changes (+/-)
Current accounts of the fiduciary bank of trust management	4 718	5 690	(972)
Receivables on trust transactions	151 974	114 291	37 683
Other assets in trust management	-	67 525	(67 525)
Total active trust management accounts	**156 692**	**187 506**	**(30 814)**
Bank management funds	156 692	187 506	(30 814)
Trust transactions income	-	-	-
Total passive trust management accounts	**156 692**	**187 506**	**(30 814)**

As at 31 December 2017, the Bank established two Construction Financing Fund, which is managed by the Bank. Accounting of trust management operations are performed by the manager by each Bank's managed fund.

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Note 33. Contingent liabilities of the Bank

The Bank discloses information on events that occurred by the end of 2017 but are not disclosed in other notes, where the probability of an outflow of resources embodying economic benefits will not meet the definition of liabilities, including:

a) Litigations

At 01 January 2018 are two court cases involving the Bank, where the Bank is a defendant, for the total amount of UAH 875,629 thousand.

In general, per the preliminary analysis of litigations, they are not likely to result in any risk to the financial position and stability of the Bank.

b) Contingent tax liabilities

The Bank's tax accounting policies aim to adhere to principles of prudence and diligence. Therefore, the Bank does not anticipate any risks of potential tax liabilities, and does not assess their financial impact or estimate uncertainty associated with possible future changes of these obligations at the end of the reporting period.

The tax authority is authorized to conduct inspection and determine the taxpayer's fiscal liability in cases provided by the Tax Code of Ukraine within 1,095 days (2,555 days in case of controlled transactions for transfer pricing as regulated by 39 of Tax code of Ukraine) following the last day of the deadline for filing tax returns.

c) Capital investment liabilities

There are no capital investment liabilities as at 31.12.2017.

d) Operating lease liabilities

Table 33.1. Future minimum lease payments on uncancellable operating lease contract

	2017	2016
1 year or less	66 751	3 214
1-5 years	228 113	2 509
Total	**294 864**	**5 723**

As of 31.12.2017, the Bank has 87 operating lease contracts, including 49 contracts of lease for 1 year or less and 38 contracts for 1-5 years.

e) Credit related liabilities

As of 31 December 2017, credit related liabilities (usually those are revocable lines of credit granted to clients) amounted to UAH 481,110 thousand. Their potential financial impact on the financial performance of the Bank is insignificant and do not carry serious risks (liquidity risk in particular), as 97% of them are revocable, i.e. free from risks.

Table 33.2. Credit related liabilities

	2017	2016
Unused credit lines	481 110	390 349
Export letters of credit	85 699	59 412
Import letters of credit	-	83 023
Granted guarantees	704 168	470 144
Provision for credit related liabilities	(2 833)	(1 074)
Total credit related liabilities net of provisions	**1 268 144**	**1 001 854**

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Table 33.3. Credit liabilities by currency

	2017	2016
Hryvnia	915 524	582 224
US dollar	352 620	369 762
Euro	-	49 868
Total	**1 268 144**	**1 001 854**

f) Pledged assets and assets with restricted possession, use and disposal

At 31 December 2017 and 31 December 2016, the Bank does not have pledged assets and assets with restricted possession, use and disposal

Note 34. Derivatives

Table 34.1. Fair value of derivatives in the trading portfolio of the Bank

	2017		2016	
	positive fair value	negative fair value	positive fair value	negative fair value
Forward contracts	56 134	(57 990)	-	-
Swap contracts	301 379	(301 379)	156 884	(156 826)
Net fair value	265	(1 690)	54	-

Note 35. Fair value of financial instruments

The Bank defines the fair value as the amount at which a financial instrument could be exchanged between knowledgeable and willing parties other than in a forced sale or liquidation, and is best proved by an active quoted market price of the financial instrument.

The Bank estimated fair values of financial instruments using available market information (if any) and appropriate valuation methodologies.

The fair value of assets maturing in less than one month approximates their book value as these financial instruments are of a term nature. For longer-term amounts due from other banks and to other banks, market interest rates are used and, accordingly, the fair value of these assets and liabilities approximates their book value.

The book value of securities available for sale is a reliable estimate of their fair value. Interest rates of interest-bearing securities are fair market rates and, accordingly, the fair value of these securities approximates the book value of these instruments.

The fair value of the credit portfolio is based on the loan servicing characteristics and interest rates of individual loans within each sector of the portfolio. Loan loss allowances estimates take into consideration the risk premium applied to different types of loans based on factors like the current situation in the sector where the borrower operates, the financial conditions of each borrower and guarantees obtained. Accordingly, the loan loss allowance is considered a reasonable estimate of potential losses that would be required to reflect the impact of credit risk.

In general, loans are granted at market rates and, therefore, the current balances represent a reasonable estimate of fair value. Accordingly, the book value calculated as amortized cost of such instruments is a reasonable approximation of their fair value.

For deposits with maturity of one month or less, the fair value approximates their book value due to a relatively short-term nature of these financial instruments. For longer-term deposits, interest rates are market rates and, accordingly, the fair value approximates their book value.

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Table 35.1 Fair value and inputs hierarchy levels used for the assets and liabilities evaluation techniques in 2017

	Fair value under various evaluation techniques			Total fair value	Total carrying value
	Market quotations (level 1)	Model using observable data (level 2)	Model using non-observable data (level 3)		
ASSETS					
Cash and cash equivalents	-	284 028	-	284 028	284 028
Cash	-	219 132	-	219 132	219 132
Balances with the National Bank of Ukraine	-	43 138	-	43 138	43 138
Correspondent accounts, deposits and overnight loans with other banks	-	21 758	-	21 758	21 758
Deposit certificates issued by the NBU	-	555 570	-	555 570	555 570
Loans to customers	-	-	3 377 682	3 377 682	3 377 682
corporate loans	-	-	3 327 909	3 327 909	3 327 909
loans to sole traders	-	-	-		
mortgage loans to individuals	-	-	29 937	29 937	29 937
consumer loans to individuals	-	-	786	786	786
Other loans to individuals	-	-	13 932	13 932	13 932
Securities in the Bank's portfolio for sale (government bonds)	48 030	-	-	48 030	48 030
Other financial assets	-	-	40 220	40 220	40 220
Receivables on payment card transactions	-	-	5 367	5 367	5 367
Restricted cash	-	-	15 748	15 748	15 748
Other financial assets	-	-	212	212	212
Other financial assets	-	-	18 893	18 893	18 893
LIABILITIES					
Due to clients	-	3 753 330	-	3 753 330	3 753 330
government and public organizations	-	969	-	969	969
other legal entities	-	2 177 138	-	2 177 138	2 177 138
individuals	-	1 575 223	-	1 575 223	1 575 223
Debt securities in issue	-	15 187	-	15 187	15 187
Deposit certificates	-	15 187	-	15 187	15 187
Other financial liabilities	-	11 840	-	11 840	11 840

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Table 35.2 Fair value and inputs hierarchy levels used for the assets and liabilities evaluation techniques in 2016

	Fair value under various evaluation techniques			Total fair value	Total carrying value
	Market quotations (level 1)	Model using observable data (level 2)	Model using non-observable data (level 3)		
ASSETS					
Cash and cash equivalents	-	396 620	-	396 620	396 620
Cash	-	41 390	-	41 390	41 390
Balances with the National Bank of Ukraine	-	104 232	-	104 232	104 232
Correspondent accounts, deposits and overnight loans with other banks	-	219 770	-	219 770	219 770
Deposit certificates issued by the NBU	-	83 064	-	83 064	83 064
Loans to customers	-	-	4 143 086	4 143 086	4 143 086
corporate loans	-	-	4 120 023	4 120 023	4 120 023
loans to sole traders	-	-	18 918	18 918	18 918
mortgage loans to individuals	-	-	669	669	669
consumer loans to individuals	-	-	133	133	133
Other loans to individuals	-	-	3 343	3 343	3 343
Other financial assets	-	-	16 859	16 859	16 859
Receivables on payment card transactions	-	-	3 434	3 434	3 434
Restricted cash	-	-	11 628	11 628	11 628
Other financial assets	-	-	1 797		1 797
Property, equipment and intangible assets	-	-	22 511	22 511	22 511
land plots	-	-	232	232	232
buildings, structures and transmission equipment	-	-	19 585	19 585	19 585
intangible assets	-	-	2 694	2 694	2 694
LIABILITIES					
Due to banks	-	9	-	9	9
Correspondent accounts, deposits and overnight loans from other banks	-	9	-	9	9
Due to clients	-	3 529 618	-	3 529 618	3 529 618
government and public organizations	-	263	-	263	263
other legal entities	-	2 319 631	-	2 319 631	2 319 631
individuals	-	1 209 724	-	1 209 724	1 209 724
Debt securities in issue	-	118 028	-	118 028	118 028
Deposit certificates	-	118 028	-	118 028	118 028
Other borrowings	-	372 253	-	372 253	372 253
Loans received from international and other financial organizations	-	372 253	-	372 253	372 253
Other financial liabilities	-	9 662	-	9 662	9 662

During the reporting and previous periods, the Bank does not have financial assets, fair value of which cannot be reliably estimated.

Bank does not have collateral, which could be sold or remortgaged.

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Note 36. Related party transactions

The approach to the identification of parties related to the Bank changed in the reporting year. For the purposes of these financial statements, parties are related if they are under joint control or when one party controls another party or can exercise significant influence over the other party's financial and operational decisions in accordance with IAS 24 *Related Party Transactions*. Each potential related party transaction is analysed for the substance of the relationship rather than its legal form. Therefore, outstanding loans to related parties disclosed in the *Related party transactions* Note are shown in accordance with this changed approach for both the reporting and the previous year.

In the course of its operations the Bank enters into transactions with its major shareholders, key management personnel, associates and other related parties. These transactions include settlements, crediting, documentary transactions, attraction of deposits and foreign currency transactions

Table 36.1. Balances of related party transactions as at the end in 2017

	Major shareholders of the Bank	Key management personnel	Associates	Other related parties
Loans to customers (contractual interest rate 0.1 -33 %)	440	87	274	2 427 988
Loan loss allowance at 31 December	-	-	-	(158 039)
Other assets	-	-	-	35
Due to clients (contractual interest rate 1 -23 %)	6 161	8 133	4 130	71 582
Debt securities in issue	-	-	-	-
Provisions for liabilities	1	-	-	1
Other liabilities	-	6	5	12

Table 36.2. Income and expenses on transactions with related parties in 2017

	Major shareholders of the Bank	Key management personnel	Associates	Other related parties
Interest income	12	1	22	173 385
Interest expenses	(803)	(186)	(539)	(9 353)
Dividends	7 393	-	-	-
Fee and commission income	165	338	27	11 174
Allocation to impairment allowance for loans and due from other banks	-	-	-	(46 604)

Table 36.3. Other rights and obligations on transactions with related parties at the end in 2017

	Major shareholders of the Bank	Key management personnel	Associates	Other related parties
Import letters of credit	-	-	-	-
Other liabilities	1 516	233	401	66 814
Guarantees	-	-	-	401

Table 36.4. Total loans granted to related parties and paid by the related parties during 2017

	Major shareholders of the Bank	Key management personnel	Associates	Other related parties
Loans to related parties during the period	-	-	163	-
Loans repaid by related parties during the period	46	58	-	106 491

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Table 36.5. Balances of related party transactions as at the end in 2016

	Major shareholders of the Bank	Key management personnel	Associates	Other related parties
Loans to customers (contractual interest rate 0.1 -33 %)	486	145	111	2 534 479
Loan loss allowance at 31 December	(2)	(1)	-	(111 435)
Due to clients (contractual interest rate1 -23 %)	-	-	-	261
Debt securities in issue	31 491	2 699	4 333	307 847
Provisions for liabilities	12 759	28	46	-
Other liabilities	64	9	21	286
Loans to customers (contractual interest rate 0.1 -33 %)	-	1	3	30

Table 36.6. Income and expenses on transactions with related parties in 2016

	Major shareholders of the Bank	Key management personnel	Associates	Other related parties
Interest income	8	3	8	224 824
Interest expenses	2 096	121	273	30 138
Dividends	10 869	-	-	-
Fee and commission income	28	48	17	9 175
Allocation to impairment allowance for loans and due from other banks	2	-	-	14 489

Table 36.7. Other rights and obligations on transactions with related parties at the end in 2016

	Major shareholders of the Bank	Key management personnel	Associates	Other related parties
Import letters of credit	-	-	-	-
Other liabilities	1 468	357	371	95 004
Guarantees issued	-	-	-	107 092

Table 36.8. Total loans granted to related parties and paid by the related parties during 2016

	Major shareholders of the Bank	Key management personnel	Associates	Other related parties
Loans to related parties during the period	325	56	53	249 590
Loans repaid by related parties during the period	-	-	-	-

Table 36.9. Compensation of key management personnel

	2017		2016	
	Costs	Accruals	Costs	Accruals
Current compensation	11 255	745	7 562	323
Compensation on termination	87	-	226	-

Note 37. Subsequent events

IFRS 9 "Financial Instruments" has been applied by the Bank for the first time from the first quarter of 2018. As of the reporting date, the first application of IFRS 9 has minor impact on capital of the Bank. Further application of IFRS 9 will affect the financial performance of the Bank in subsequent periods of application.

According to implementation of the Bank's action plan for bringing its activities in line with the requirements of the legislation and regulatory acts of the National Bank of Ukraine regarding operations with related to the Bank parties, namely bringing the ratio N9 to the normative value, on 29 March 2018 the Bank made a decision on satisfaction of the demands of the mortgagee by acquiring the title to the mortgage asset according to the Mortgage agreement. Such actions has resulted in the repayment of the borrower's past due debt in the amount of USD 7,842 thousand, which on the date of repayment of the debt consisted equivalent of UAH 207,083 thousand with transferring ownership title of investment property to the Bank, namely a property complex valued for UAH 211,700 thousand.

In accordance with the legislation of Ukraine, the Bank received income in the amount of 10% (UAH 462 thousand) that represented excess of the collateral value over the debt's value, and remaining amount - 90% (UAH 4 155 thousand) was returned to the client.