PJSC Commercial Bank
PrivatBank – Cyprus Branch

Financial statements
For the year ended 31 December 2017

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Board of Directors and Branch Management

Board of Directors of PJSC Commercial Bank “PrivatBank”

Galyna Pakhachuk – acting Chairman of the Board
Oleg Sergeev
Oleksandr Dreling
Olexiy Beregnyy
Sergiy Kharytych
Valentyna Yarmolenko

Supervisory Board of PJSC Commercial Bank “PrivatBank”

R. Engin Akçakoca – Chairman
Francis Malige
ArtemV. Shevalev
Andrea Moneta
Oksana S. Markarova
Steven Seelig
Sergiy Oleksiyenko

Branch Management

Shevchenko Kostyantyn – General Manager

Branch Registered Office

Arch. Makariou III, 52A
CY-1075 Nicosia
Cyprus

Management report

The Board of Directors of PJSC Commercial Bank PrivatBank (the "Bank") presents this report together with the financial statements of PJSC Commercial Bank PrivatBank – Cyprus Branch (the "Branch") for the year ended 31 December 2017.

Principal activities

The principal activity of the Branch, which is unchanged from last year, is the provision of banking services on the basis of the licence granted by the Central Bank of Cyprus. On 20 December 2016, the Central Bank of Cyprus amended the Branch's business license. Following the amendments, and until the license is further amended, the Branch shall not engage in any banking business, other than:

- the repayment or renewal of existing deposits and the acceptance of payments towards existing credit facilities;
- the repayment of administrative expenses relating to the operations of the Branch.

Review of developments, position and performance of the Branch

The loss of the Branch for the year ended 31 December 2017 was €44,579 thousand and its total assets as at 31 December 2017 were €277,877 thousand. As at 31 December 2017, the Branch's total liabilities exceeded its total assets by €381,438 thousand. The Branch's ability to meet its obligations is dependent on the financial support of the Head Office.

Going concern

Management has made an assessment of the Branch's ability to continue as a going concern. The conditions that existed during 2017 and the developments up to the date of approval of these financial statements that have been considered in management's going concern assessment include, amongst others, the operating environment in Ukraine (Note 1 of the financial statements), since the Branch's ability to meet its obligations is dependent on the financial support of the Head Office.

Management, taking into consideration the amendment of the Branch's banking license factors described in Note 1 of the financial statements and the datenon-compliance with liquidity regulatory requirements as described in Note 4 to the financial statements, is satisfied that the Branch has access to the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate, despite the fact that, as disclosed in Note 4 to the financial statements, the Branch is currently not in compliance with its liquidity regulatory requirements, and that its banking licensed is limited as described in Note 1 to the financial statements, which can be considered as a material uncertainty as to its ability to continue as a going concern.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Branch are presented in Notes 1, 3 and 4 of the financial statements.

Future developments of the Branch

As noted above, the Branch's business license has been limited by the Central Bank of Cyprus. Additionally, as disclosed in Note 18 to the financial statements, the Branch is currently involved in several legal cases. Considering these conditions, the future development of the Branch is uncertain.

Board of Directors

The members of the Board of Directors of PJSC Commercial Bank PrivatBank at 31 December 2017 are shown on page 1. At 31 December 2017, Galyna Pakhachuk acted as the Chairman of the Board of the Bank. On 8 February 2018, the Board of the National Bank of Ukraine decided to approve candidacy of Petr Krumphanzl for the post of the Chairman of the Management Board of the Bank.

Events after the reporting date

There were no material events after the reporting date, which have a bearing on the financial statements.

Independent Auditors

The independent auditors of the Branch, Ernst & Young Cyprus Limited, expressed their willingness to continue in office.

By Order of the Board of Directors

_____________________________________, Petr Krumphanzl, Chairman of the Board

15 May 2018

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Independent Auditor's Report

To the Shareholder of Public Joint Stock Company Commercial Bank "PrivatBank"

Report on the Audit of the Financial Statements

Disclaimer of opinion

We were engaged to audit the financial statements of the Cyprus Branch (the "Branch") of Public Joint Stock Company Commercial Bank "PrivatBank" (the "Bank"), on pages 1 to 41 and comprising the statement of financial position as at 31 December 2017, and the statements of comprehensive income, changes in Head Office account and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of the Branch. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for disclaimer of opinion

- As at 31 December 2017, the Branch recognised repossessed collateral of €166,195 thousand and an amount of €189,742 thousand for 31 December 2016 included in the corresponding figures. We were unable to obtain sufficient appropriate audit evidence in respect of the net realisable value of the repossessed collateral. As a result, we were unable to determine whether any adjustments were necessary to the amounts of the repossessed collateral as at 31 December 2017 and impairment charges for 2017 and the corresponding figures.

- In 2017, the Branch recognised an impairment charge of €6,900 thousand in respect of repossessed collateral. We were unable to obtain sufficient appropriate audit evidence about the period this impairment loss relates to. As a result, we were unable to determine whether any adjustments were necessary to the statement of other comprehensive income and the statement of changes in Head Office account for 2017.

- As at 31 December 2017, the balance of deposits from customers included €247,943 thousand of deposits and current accounts from customers and €294,160 thousand for the corresponding figures for which, as discussed in Note 18 to the financial statements the Branch is still assessing the legal implications of the Deposit Guarantee Fund of Ukraine and the Central Bank of Cyprus' decisions. As a result, the Branch was not in a position to perform an analysis of whether criteria for derecognition were met in respect of these deposits and what the effect of such analysis would be on the Branch's liabilities and Head Office account.

- Effective 19 December 2016, the Branch stopped accruing interest on the deposits and current accounts from customers which were included in the bail in list. This resulted in the Branch reversing in the current year' statement of comprehensive income €838 thousand of interest expense which was recognized in 2016 and no interest expense was recognized for these accounts in 2017. We were unable to obtain sufficient appropriate evidence to determine whether the Branch does not have an obligation to accrue interest on these accounts.

- The Branch does not account for foreign exchange gain/loss from transactions in currencies other than its functional currency (€) – foreign currency transactions that took place during the year ended 31 December 2017 and the corresponding year were not translated into € using the exchange rates prevailing at the dates of the transactions. We were unable to obtain sufficient appropriate audit evidence about the foreign currency effect from the transactions in currencies other than Euro (€) the Branch carried out during the year ended 31 December 2017 and the corresponding year. As a result, we were unable to determine whether any adjustments were necessary to the statement of comprehensive income for 2017 and the corresponding figures.

- In 2017, the Branch recognised an allowance for impairment of €1,712 thousand on loan to a customer with the carrying value of €10,150 thousand before allowance for impairment. The Branch had recognised an allowance for impairment of €8,432 thousand on this loan in the prior years. We were unable to obtain sufficient appropriate audit evidence about the period this impairment loss relates to. As a result, we were unable to determine whether any adjustments were necessary to the statement of comprehensive income and the statement of changes in the Head Office account for 2017 and the corresponding figures.

Material uncertainty related to going concern

(a) We draw attention to Note 4 to the financial statements, which indicates that during 2017 and as at 31 December 2017, the Branch was not compliant with the prudential liquidity ratios, which indicate that a material uncertainty exists that may cast significant doubt on the Branch's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

(b) We draw attention to Note 1 to the financial statements, which describes the limitations to the Branch's banking license, which indicate that a material uncertainty exists that may cast significant doubt on the Branch's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Branch'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 the Board of Directors either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Branch's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Branch's financial statements in accordance with International Standards on Auditing and to issue an auditor's report.

However, because of the matters described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

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

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Branch on 6 March 2017 by the Branch General Manager. Our appointment has been renewed annually by the Branch General Manager representing a total period of uninterrupted engagement appointment of 2 years.

Consistency of the Additional Report to the Supervisory Board

We confirm that disclaimer of opinion on the financial statements expressed in this report is consistent with the additional report to the Supervisory Board of the Bank, which we issued on 11 May 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Branch and which have not been disclosed in the financial statements or the management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In light of the knowledge and understanding of the Branch and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.

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Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
23 June 2018

	Note	2017 €'000	2016 €'000
Interest income	5	13,168	77,710
Interest expense	5	(19,514)	(68,898)
Net interest (expense)/income		**(6,346)**	**8,812**
Fee and commission income	7	418	2,148
Fee and commission expense	7	(4)	(26)
Gains from currency dealing		3,647	708
Net foreign exchange transaction gain		42,155	386
General and administrative expenses	8	(3,039)	(5,052)
Impairment charges from credit losses and repossessed collateral	6	(81,410)	(357,963)
Loss before income tax		**(44,579)**	**(350,987)**
Income tax expense	10	-	(113)
Loss for the year		**(44,579)**	**(351,100)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(44,579)**	**(351,100)**

_______________, Petr Krumphanzl, Chairman of the Board

_______________, Valentyna V. Yarmolenko, Chief Accountant

	Note	2017 €'000	2016 €'000
Assets			
Cash on hand and balances with Central Bank of Cyprus	11	53,930	55,499
Due from banks:			
- Due from Head Office and related banks		22,366	142,061
- Due from other banks		193	29
Loans and advances to customers	12	33,864	139,148
Other assets		777	700
Repossessed collateral	13	166,196	197,620
Income tax refundable		86	86
Leasehold improvements and equipment	14	465	704
Total assets		**277,877**	**535,847**
Head Office account and liabilities			
Head office account			
Accumulated losses		(381,438)	(336,859)
Total Head Office account		**(381,438)**	**(336,859)**
Liabilities			
Due to Head Office and related banks	15	354,917	350,689
Deposits from customers	16	303,578	458,898
Other liabilities	17	820	63,119
Total liabilities		**659,315**	**872,706**
Total Head Office account and liabilities		**277,877**	**535,847**

On 15 May 2018 the Board of Directors of PJSC Commercial Bank PrivatBank authorised these financial statements for issue.

__________, Petr Krumphanzl, Chairman of the Board

__________, Valentyna Yarmolenko, Chief accountant

	Note	Retained earnings / (accumulated losses) €'000	Share grant reserve €'000	Total €'000
At 1January 2016		13,053	1,188	**14,241**
Total comprehensive loss for the year		(351,100)	-	**(351,100)**
Reclassification of share grant reserve into accumulated losses	22	1,188	(1,188)	-
At 31 December 2016		**(336,859)**	-	**(336,859)**
Total comprehensive loss for the year		(44,579)	-	**(44,579)**
At 31 December 2017		**(381,438)**	-	**(381,438)**

______, Petr Krumphanzl, Chairman of the Board

______, Valentyna Yarmolenko, Chief accountant

	Note	2017 €'000	2016 €'000
Cash flows from operating activities			
Loss before income tax		(44,579)	(350,987)
Adjustments for non-cash items:			
Depreciation of leasehold improvements and equipment	14	175	198
Impairment charges from credit losses and repossessed collateral	6	81,410	357,963
Changes in working capital:			
Mandatory reserve deposits with the Central Bank of Cyprus		(699)	4,107
Compulsory deposit account with the Central Bank of Cyprus	11	-	(50,000)
Loans and advances to customers		73,310	144,028
Other assets		(77)	(303)
Deposits from banks		4,228	(59,352)
Deposits from customers		(155,320)	(214,240)
Other liabilities		(55,643)	62,686
Cash used in operations		**(97,195)**	**(105,900)**
Income tax paid		-	(113)
Net cash used in operating activities		**(97,195)**	**(106,013)**
Cash flows from investing activities			
Purchases of property, plant and equipment	14	-	(108)
Net cash used in investing activities		**-**	**(108)**
Net decrease in cash and cash equivalents		**(97,195)**	**(106,121)**
Cash and cash equivalents at beginning of year		145,290	256,420
Foreign exchange adjustments		(24,604)	(5,009)
Cash and cash equivalents at end of year		**23,491**	**145,290**

________________, Petr Krumphanzl, Chairman of the Board

________________, Valentyna Yarmolenko, Chief accountant

Notes to the financial statements

1 General information

Country of incorporation

PJSC Commercial Bank PrivatBank – Cyprus Branch (the “Branch”) is registered in Cyprus and operates under the licence from the Central Bank of Cyprus (the “CBC”) issued on 20 July 1999. The registered office of the Branch is at 52A, Arch. Makariou III, CY-1075 Nicosia, Cyprus.

PJSC Commercial Bank PrivatBank (the Head Office” or the “Bank”) was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000. In 2009, the Bank changed its legal form to a public joint stock company limited by shares in accordance with changes in Ukrainian legislation.

As at 31 December 2017 and 2016, the Government of Ukraine is the ultimate controlling party of the Bank. The Ministry of Finance of Ukraine became the sole shareholder of the Bank after nationalisation of the Bank in December 2016.

Nationalisation of the Bank

On 18 December 2016, the Deposit Guarantee Fund of Ukraine (the “DGF”) has appointed a temporary administrator to manage activities of the Bank following the decision of the National Bank of Ukraine (the “NBU”) to declare it insolvent. At the same date, the Government of Ukraine adopted a decision to become a sole shareholder of the Bank through the Ministry of Finance.

On 19-21 December 2016, in accordance with the provisions of the Law of Ukraine “On deposit guarantee system”, the DGF dismissed the Management and the Supervisory Boards of the Bank and was solely responsible for managing the Bank’s activities during these three days. The DGF recognised UAH 155,764 million of allowance for impairment of loans and advances to customers and converted UAH 10,934 million of amounts due to customers, UAH 10,721 million of Eurobonds issued and UAH 7,783 million of subordinated debt into the Bank’s share capital (the “bail in”). Refer to the Note 18 for the details of how it affected the Branch.

On 21 December 2016, subsequent to the bail in, the Bank’s shares were sold to the Ministry of Finance of Ukraine for UAH 1.

Subsequent to 21 December 2016, the Ministry of Finance of Ukraine continues to be the sole shareholder of the Bank and the Bank is ultimately controlled by the Government of Ukraine.

Principal activities

The principal activity of the Branch, which is unchanged from last year, is the provision of banking services on the basis of the licence granted by the Central Bank of Cyprus. On 20 December 2016, the Central Bank of Cyprus amended the Branch’s business licence. Following the amendments, and until the license is further amended, the Branch shall not engage in any banking business, other than:

- the repayment or renewal of existing deposits and the acceptance of payments towards existing credit facilities;
- the payment of administrative expenses relating to the operations of the Branch.

Operating environment

The Branch, through its operations has exposure to the economy and financial markets of Ukraine and Cyprus.

1 General information (Continued)

Ukraine

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

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. The Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country.

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

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

Cyprus

Following three years of economic recession in 2011-2014, the Cyprus economy has recorded positive growth in 2015-2016. According to the projection published in the December 2017 Economic Bulletin the economy forecast to be around 3.8% GDP. The Central Bank of Cyprus expects the economy growth slowdown to 3.4% in 2018, by 2020, the growth rate will decrease to 3.1% according to the projection published in the December 2017 Economic Bulletin.

Cyprus benefited from an economic adjustment programme, during which it emerged from recession, stabilised its financial sector, and consolidated its public finances; yet many challenges remain.

Growth of the economy in 2015-2017 was mainly driven by a massive increase in investment, stable growth in exports and a modest acceleration in private consumption growth, which benefitted from declining unemployment and rising disposable income. Standard and Poor's rating agency has taken note of Cyprus' encouraging macroeconomic performance and impressive budgetary consolidation efforts and raised the country's credit from BB to BB+ on 17 March 2017. On 15 September 2017, the credit rating agency confirmed the credit rating of Cyprus at BB+, while revising the prospects of the Cyprus economy from stable to positive.

2 Summary of significant accounting policies

A summary of the principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

The financial statements have been prepared under the historical cost convention unless stated otherwise in the financial statements.

The financial statements are presented in Euro, which is the Branch's functional and presentation currency. The figures shown in the financial statements are stated in Euro thousand.

2 Summary of significant accounting policies (Continued)

Adoption of new and revised International Reporting Standards and Interpretations

During the current year the Branch adopted all the changes to International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2017. This adoption did not have a material effect on the accounting policies of the Branch.

Standards issued by the IASB not yet effective

Up to the date of approval of the financial statements, certain new Standards, Interpretations and Amendments to existing standards have been published that are not yet effective for the current reporting period and which the Branch has not early adopted. These are expected to have no significant impact on the Branch's financial statements when they become effective, except for the IFRS 9.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9.

The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Branch plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information.

The Branch is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

A. *Classification and measurement*

In the part of classification and evaluation, the new standard requires that the valuation of all financial assets, excluding equity and derivative instruments, be based on a combined approach based on the business model used by the organization to manage the financial assets and the characteristics of the financial asset related to provided by the contract cash flows. Instead of the categories set out in IAS 39, the following categories of financial instruments are introduced: measured at fair value through profit or loss, at fair value through other comprehensive income and at amortized cost. IFRS 9 also allows entities to continue to classify (but without the right to further reclassify) financial instruments that meet the criteria for recognition at amortized cost or at fair value through other comprehensive income, in a category that is measured at fair value through profit or loss, if this eliminates or significantly reduces the inconsistency of approaches to assessment or recognition.

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

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

2 Summary of significant accounting policies (Continued)

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

The classification and measurement of financial liabilities remain unchanged.

The Branch is in the process of completing the initial assessment of the impact of IFRS 9 on classification and measurement.

The loans provided by the Branch are expected to match the SPPI criterion and will be measured at amortized cost.

Other financial assets and liabilities that are currently measured at amortized cost are expected to continue to be measured at amortized cost.

B. *Impairment*

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

The amount of effect on provisions for expected credit losses is still under review.

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income and expense

Fee and commission income and expense, unless included in the effective interest rate calculation, are recognised in statement of comprehensive income on an accrual basis when the service is provided. Money transfer fees, ledger fees and other similar fees are recognised over the period the service is provided. Commitment fees, together with related direct costs for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment.

2 Summary of significant accounting policies (Continued)

Employee benefits

The Branch and the employees contribute to the Government Social Insurance Fund based on employees' salaries. The Branch's contributions are expensed as incurred and are included in staff costs. The Branch has no further payment obligations once the contributions have been paid. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Current and deferred income tax

The tax expense for the period comprises current income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the country in which the Branch operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Branch where there is an intention to settle the balances on a net basis.

Financial instruments

Date of recognition
Purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the marketplace are recognized on the trade date, i.e. the date that the Branch commits to purchase or sell the asset.

Classification and initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

2 Summary of significant accounting policies (Continued)

Loans and receivables
"Balances with Central Bank of Cyprus", "Due from banks" and "Loans and advances to customers" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are classified as loans and receivables. After initial measurement, the amounts are measured at amortised cost using the effective interest rate method, less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statement of comprehensive income.

Financial liabilities
"Deposits from customers" and "Due to Head Office and related banks" are classified as financial liabilities. After initial measurement, they are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Impairment of financial assets - Loans and receivables

Impairment losses are recognised in statement of comprehensive income for the period when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Branch determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Branch considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:
- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Branch obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Bank. This approach ensures that the impact of losses which have not yet been specifically identified is included in the estimation of loan loss impairment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

2 Summary of significant accounting policies (Continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss for the period.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the period.

Derecognition of financial assets and financial liabilities

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

- the rights to receive cash flows from the asset have expired; or
- the Branch has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Branch has transferred substantially all the risks and rewards of the asset, or (b) the Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting

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

Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 Summary of significant accounting policies (Continued)

Operating leases

Where the Branch is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss a straight-line basis over the period of the lease.

Repossessed collateral

Repossessed collateral represents non-financial assets repossessed by the Branch in settlement of past due loans. The assets are initially recognised at lower of fair value or gross carrying value of the related loans. The Branch measures such assets the lower of their carrying amount and net realisable value. It is the Branch's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Branch does not occupy repossessed properties for business use.

Credit related commitments

The Branch enters into credit related commitments, including commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a proportion basis over the life of the commitment, except for commitments to originate loans if it is probable that the Branch will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Leasehold improvements and equipment

All leasehold improvements and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of leasehold improvements and equipment.

Subsequent costs are included in the assets' carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. All other repairs and maintenance of property, plant and equipment are charged to profit or loss during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to their residual values, over their estimated useful lives. The annual depreciation rates are as follows:

	%
Furniture, fittings and equipment	10 – 25
Motor vehicles	10 – 20
Computer equipment	10 – 50
Leasehold improvements	rate is calculated based on the shorter of useful life and the term of underlying lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year end.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2 Summary of significant accounting policies (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Expenditure for repairs and maintenance of leasehold improvements and equipment is charged to the profit or loss of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably.

Gains and losses on disposal of leasehold improvements and equipment are determined by comparing proceeds with carrying amount and are included in general and administrative expenses in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and balances due from banks. Cash and cash equivalents are carried at amortised cost. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the Central Bank

Mandatory cash balances with the Central Bank are carried at amortised cost and are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Head Office account

The Head Office account represents the balance due between the Head Office and the Branch as a result of the cumulative profits/losses arising in the Branch net of any distributions to the Head Office.

Share grant

Prior to December 2016, the Bank operated a share-based compensation plan for the management of the PrivatBank Group, including the management of subsidiaries and branches. The fair value of the shares issued to the Branch management for their services was recognised as the Branch's compensation expense with a corresponding increase in the share grant reserve. No vesting conditions were introduced and the shares vested immediately. This compensation plan ceased after the Bank's nationalisation.

Impairment of non-financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3 Financial risk management

The risk management function within the Bank, and in the Branch as a part of it, is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Branch stopped issuing loans in accordance with the amended banking license (refer to Note 1 for further details).

Information disclosed in this note related to the Bank's practices is also applicable to the Branch, if not stated otherwise.

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of bodies of the Bank under the supervision of the credit committee (the "Credit Committee"). Other bodies responsible for risk management within the Bank include the Treasury, Risk Management Division, Internal Control and Fraud-Management Division, the Finance and Risk Division. The Bank also has a system of internal controls which is supervised and monitored by its Internal Audit Division and Financial Monitoring Department. In addition, Compliance department monitors compliance of risk management process and function with regulatory and other legislative requirements.

Credit Committee

The Credit Committee meets once a week and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Bank's loan portfolio and reviewing large loan projects and the lending policies of the Bank's branches. The Credit Committee also monitors the interest rates set by the Bank's main competitors and the overall market situation and determines the Bank's pricing policy on the basis of the above. In addition, due to the importance of liquidity risk management, the Credit Committee is also responsible for decisions, which may have a significant impact on assets and liabilities, funding base and compliance with liquidity ratios.

Treasury

The Treasury is responsible for day-to-day asset and liability management. The Treasury performs an analysis and controls the Bank's liquidity position and interest rate risk exposure based on instructions and guidelines from the Finance and Risk Division and its own assessments. The Treasury also monitors and controls compliance with respective regulatory and internal risk ratios set in accordance with regulatory and internal requirements.

Finance and Risk Division

The Finance and Risk Division prepares daily reports on liquidity and interest risks, calculates and monitors respective ratios. The reports are accessible by the Treasury and other risk management function divisions. The Finance and Risk Division also develops detailed internal procedures and guidelines to manage these risks.

Risk-Management Division

The Risk Management Division develops guidelines and policies for identification, assessment, measurement and control of credit risk, primarily in lending process, and regularly performs credit risk stress-testing. Also Risk Management Division sets limits for interbank transactions.

3 Financial risk management (Continued)

Internal Control and Fraud-Management Division

The Internal Control and Fraud-Management Division reviews and checks the results of work performed by the divisions of the Bank and assists in formulating management decisions on enhancing transactional security and reducing risk based on data derived from this verification process. In particular, the Internal Control and Fraud-Management Division develops methodologies for detecting suspicious and fraudulent transactions and for reducing errors in statistical analysis of data from the Bank's accounting software and other sources, and verifies risk assumptions based on the results of such analyses.

Credit risk. The Branch takes on exposure to credit risk, which is the risk that one party to a financial contract will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Branch's lending and other transactions with counterparties giving rise to financial assets.

The general principles of the Bank's credit policy are outlined in the Bank's Credit Policy. The Bank's Credit Manual regulates all key steps in lending operations of the Bank and outlines procedures to analyse borrowers' financial position and collateral valuation. Also it sets requirements for loan documentation and procedures to monitor loan performance.

The Branch's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 21. The credit risk is mitigated by collateral and other credit enhancements. For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 12. The Branch structures the levels of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or group of borrowers.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Bank has a collateral policy in place, which includes a thorough review and assessment of collateral value.

Basic information on credit risk level, including reports on the loan portfolio and problem assets volume broken down by credit programme and manager is updated weekly and reviewed both as at the current date and over a period of time. Credit Committee on a monthly basis reviews credit policies effectiveness for each business division and analysis information on the levels of non-performing loans.

Off-Balance Sheet Policy

Credit risk for off-balance sheet financial instruments is defined as a possibility of sustaining a loss as a result of another party to a financial contract failing to perform in accordance with the terms of the contract. Credit approval procedures, risk control limits and monitoring procedures for off-balance sheet financial instruments are established by the Bank.

Loan Monitoring

The Bank's IT systems allow on-line monitoring of loans' performance by Management.

The Bank reassesses credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of a borrower and (ii) assessing the sufficiency of collateral. The financial and market position of a borrower is regularly reviewed and, on the basis of such review, an internal credit rating of a borrower may be revised. The review is based on the flow of funds into customer's accounts, its most recent financial statements and other business and financial information submitted by a borrower or otherwise obtained by the Bank.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to a loan in question. The review of collateral is performed by independent appraisal companies or qualified internal appraisers. The frequency of such reviews depends on the type of collateral.

3 Financial risk management (Continued)

Problem Loan Recovery

The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Bank to achieve the highest level of repayment on nonperforming loans.

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine whether the cause of late payments is administrative or credit-related in nature. At this stage, credit officers contact the borrower, date to demand repayment. If such measures do not result in the repayment of the loan and the non-performance exceeds 90 days, the loan is classified as a “problem loan”.

The Risk-Management Division, which is responsible for identification of problem loans in the Bank, issues a banking order each month to transfer problem loans from the relevant credit unit’s books to a specialised unit within Soft Collection, Credit Collection and Security Division.

Soft Collection, Credit Collection and Security Division are responsible for all loans issued by the Bank classified as “problem loans”, excluding loans where the total debt amounts to less than UAH 1,000 (which continue to be processed by the monitoring unit). The Security Division obtains and reviews all documentation relating to the borrower, performs an official internal investigation to identify the reasons for the problem, draws up a plan of action for the repayment of the debt and reviews the collateral (which may entail organising protection). In a number of enforcement actions the Bank initiates court proceedings. The Security Division will often engage in negotiations with the borrower over a problem loan either concurrently with, or prior to, initiating court proceedings the collateral for sale at auction, to attach the borrower’s account(s) with another bank or to take possession of property under a mortgage or transport facilities. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is undergoing purely temporary business difficulties and of that borrower’s willingness and capacity to repay its debt, negotiations usually aim at debt restructuring and include requirements to obtain additional collateral, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules.

Other legal actions available to the Bank include executive proceedings for the enforcement of debt and bankruptcy proceedings. In the event of any criminal action on the part of the borrower, irrespective of the borrower’s readiness to repay its debt, the Bank involves the relevant state authorities. The Credit Committee meets monthly to review the status of non- performing loans.

The Bank maintains a policy not to refinance problem loans without convincing evidence they will be repaid or reliably secured.

Related Party Lending

The Bank conducts its business with related parties on commercial terms. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant.

Market risk. The Branch takes on exposure to market risks. Market risks arise from open positions in (a) currency and (b) interest rate, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Currency risk is the risk that the value of financial instruments owned by the Branch will fluctuate due to changes in foreign exchange rates. At year end, the Branch had balances predominantly in US Dollars and Euro.

Prior to the events of 2016 and restrictions to its banking license, the Branch operated on a matched funding basis for currencies other than its functional currency. The Branch does not have any other policies for managing currency risk. Also, there are no regulatory requirements for currency exposure limits to which the Branch should abide by.

3 Financial risk management (Continued)

At 31 December 2017, the Branch had the following financial instruments positions in different currencies:

	EURO	USD	Other currencies	Total
	€'000	€'000	€'000	€'000
Assets				
Cash on hand	679	252	1	**932**
Balances with the Central Bank of Cyprus	52,998	-	-	**52,998**
Loans and advances to banks:				
- Balances with Head Office	13,848	8,318	200	**22,366**
- Balances with other banks	189	4	-	**193**
Loans and advances to customers	31	33,833	-	**33,864**
Total assets	**67,745**	**42,407**	**201**	**110,353**
Liabilities				
Deposits from banks:				
- Balances with Head Office	6,421	347,922	-	**354,343**
- Balances with other banks	-	574	-	**574**
Deposits from customers	30,784	272,644	150	**303,578**
Trade payables	199	-	-	**199**
Total liabilities	**37,404**	**621,140**	**150**	**658,694**
Net balance sheet position	**30,341**	**(578,733)**	**51**	

3 Financial risk management (Continued)

At 31 December 2016, the Branch had the following financial instruments positions in different currencies:

	EURO €'000	USD €'000	Other currencies €'000	Total €'000
Assets				
Cash on hand	2,190	344	-	**2,534**
Balances with the Central Bank of Cyprus	52,965	-	-	**52,965**
Loans and advances to banks:				
- Balances with Head Office	95,980	44,372	1,709	**142,061**
- Balances with other banks	24	5	-	**29**
Loans and advances to customers	80	139,068	-	**139,148**
Total assets	**151,239**	**183,789**	**1,709**	**336,737**
Liabilities				
Deposits from banks:				
- Balances with Head Office	-	347,020	-	**347,020**
- Balances with other banks	2,044	1,625	-	**3,669**
Deposits from customers	58,285	398,959	1,654	**458,898**
Foreign exchange forward contracts - liability	-	54,868	-	**54,868**
Trade payables	207	-	-	**207**
Total liabilities	**60,536**	**802,472**	**1,654**	**864,662**
Net balance sheet position	**90,703**	**(618,683)**	**55**	

At 31 December 2017, if the Euro had weakened/strengthened by 10% (31 December 2016: 10%) against the US dollar with all other variables held constant, pre-tax financial result for the year would have been €64,304 thousand lower/ €52,612 thousands higher (31 December 2016: €68,743 thousand lower/ €56,244 thousands higher), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated financial assets and liabilities.

3 Financial risk management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2017 is set out below:

	OECD €'000	Non-OECD €'000	Total €'000
Assets			
Cash on hand	-	932	**932**
Balances with the Central Bank of Cyprus	-	52,998	**52,998**
Loans and advances to banks:			
- Balances with Head Office	-	22,366	**22,366**
- Balances with other banks	-	193	**193**
Loans and advances to customers	100	33,764	**33,864**
Total assets	**100**	**110,253**	**110,353**
Liabilities			
Deposits from banks:			
- Balances with Head Office	-	354,343	**354,343**
- Balances with other banks	574	-	**574**
Deposits from customers	238,732	64,846	**303,578**
Trade payables	-	199	**199**
Total liabilities	**239,306**	**419,388**	**658,694**
Net balance sheet position	**(239,206)**	**(309,135)**	

3 Financial risk management (Continued)

The following is a geographical analysis of the Branch's assets and liabilities as at 31 December 2016:

	OECD €'000	Non-OECD €'000	Total €'000
Assets			
Cash on hand	-	2,534	**2,534**
Balances with the Central Bank of Cyprus	-	52,965	**52,965**
Loans and advances to banks:			
- Balances with Head Office	-	142,061	**142,061**
- Balances with other banks	-	29	**29**
Loans and advances to customers	152	138,996	**139,148**
Total assets	**152**	**336,585**	**336,737**
Liabilities			
Deposits from banks:			
- Balances with Head Office	-	347,020	**347,020**
- Balances with other banks	3,669	-	**3,669**
Deposits from customers	339,249	119,649	**458,898**
Foreign exchange forward contracts - liability	-	54,868	**54,868**
Trade payables	-	207	**207**
Total liabilities	**342,918**	**521,744**	**864,662**
Net balance sheet position	**(342,766)**	**(185,159)**	

Interest rate risk. The Bank is exposed to the risk of financial losses as a result of possible changes in interest rates of financial instruments. Interest margins may increase due to such changes but may decrease or result in losses in the event that unexpected movements arise. Management sets limits on the acceptable level of mismatch of interest rates on financial assets and liabilities sensitive to interest rates, which is monitored regularly.

The Branch is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities could be revised to reflect current market conditions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. Quarterly (or as required), the Financial and Risk Division conducts stress testing (simple sensitivity tests) to determine the Bank's exposure to possible losses and interest income sensitivity to them assuming rates fluctuation of 1%.

3 Financial risk management (Continued)

The Bank also regularly performs interest rate gaps analysis of financial assets and liabilities sensitive to interest rates. For this fixed interest rate assets and liabilities are arranged by remaining maturities, while assets and liabilities with a variable interest rate are arranged by the earliest repricing dates. The net sensitivity gap between assets and liabilities in a given time band represents the exposure sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest bearing assets exceed interest- earning liabilities in that time band, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

The table below summarises the Branch's exposure to interest rate risk. Included in the table are the Branch's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest rate repricing or maturity dates.

At 31 December 2017:

	Within 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year	Non-interest bearing	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Assets						
Cash on hand	-	-	-	-	932	**932**
Balances with the Central Bank of Cyprus	-	-	-	-	52,998	**52,998**
Loans and advances to banks:						
- Balances with Head Office	22,366	-	-	-	-	**22,366**
- Balances with other banks	193	-	-	-	-	**193**
Loans and advances to customers	-	-	-	33,864	-	**33,864**
Total assets	**22,559**	**-**	**-**	**33,864**	**53,930**	**110,353**
Liabilities						
Deposits from banks:						
- Balances with Head Office	-	35,824	113,218	205,301	-	**354,343**
- Balances with other banks	-	-	-	574	-	**574**
Deposits from customers	1,187	1,462	7,166	23,099	270,664*	**303,578**
Trade payables	-	-	-	-	199	**199**
Total liabilities	**1,187**	**37,286**	**120,384**	**228,974**	**270,863**	**658,694**
Net balance sheet position	**21,372**	**(37,286)**	**(120,384)**	**(195,110)**		

* Refer to Note 18 for information with regards to these balances.

3 Financial risk management (Continued)

At 31 December 2016:

	Within 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	Over 1 year €'000	Non-interest bearing €'000	Total €'000
Assets						
Cash on hand	-	-	-	-	2,534	**2,534**
Balances with the Central Bank of Cyprus	-	-	-	-	52,965	**52,965**
Loans and advances to banks:						
- Balances with Head Office	142,061	-	-	-	-	**142,061**
- Balances with other banks	29	-	-	-	-	**29**
Loans and advances to customers	-	100	144	138,904	-	**139,148**
Total assets	**142,090**	**100**	**144**	**138,904**	**55,499**	**336,737**
Liabilities						
Deposits from banks:						
- Balances with Head Office	-	-	-	347,020	-	**347,020**
- Balances with other banks	1,461	306	1,246	656	-	**3,669**
Deposits from customers	101,269	10,371	248,361	45,359	53,538	**458,898**
Foreign exchange forward contracts - liability	-	-	-	-	54,868	**54,868**
Trade payables	-	-	-	-	207	**207**
Total liabilities	**102,730**	**10,677**	**249,607**	**393,035**	**108,613**	**864,662**
Net balance sheet position	**39,360**	**(10,577)**	**(249,463)**	**(254,131)**		

Liquidity risk. Liquidity risk is the risk that the Branch will be unable to meet its obligations. Liquidity risk arises from the mismatch of the Branch's financial assets and financial liabilities (including due to untimely performance of financial obligations by one or more counterparties of the Branch) and (or) emergence of unexpected necessity of immediate and simultaneous discharging by the Branch of its financial obligations. Liquidity risk is managed by the Treasury of the Bank.

The Bank's liquidity management includes maintenance of such level of liquid assets as necessary to settle obligations when they fall due; maintenance of access to a range of funding sources and funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank seeks to maintain a stable funding base and develop sources of resources primarily consisting of amounts due to corporate and retail customers. The Treasury accumulates an adequate portfolio of short-term liquid assets, largely made up of correspondent accounts, overnights placements and deposits with other banks and other interbank facilities, to ensure that sufficient liquidity is maintained.

3 Financial risk management (Continued)

Liquidity risk (continued)

The Bank calculates regulatory liquidity ratios set by the National Bank of Ukraine on a daily basis. At the same time, the Branch calculates its own mismatch liquidity ratios every day in accordance with the CBC rules, and submits them to the Head Office for monitoring. These ratios are:

- “sight to 7 days” liquidity ratio, which is calculated as the ratio of the assets to liabilities that mature within 7 days. The ratio was -61.86% at 31 December 2017 (31 December 2016: - 0.93%) with the minimum required limit of -7.50% (31 December 2016: -7.50%).
- “sight to 1 month” liquidity ratio, which is calculated as the ratio of liquid assets to liabilities maturing within 1 month. The ratio was -62.90% at 31 December 2017 (31 December 2016: -7.55 %) with the minimum required limit of -20% (31 December 2016: -25%).
- stock liquidity ratio, which is calculated as the ratio of liquid assets to liabilities with remaining maturity of up to one year. The ratio was 11.82% at 31 December 2017 (31 December 2016: 22.71%) with the minimum required limit of 25.00% (31 December 2016: 25.00%).

The liquidity risk reports are used by the Treasury to manage liquidity on a day-to-day basis.

Head of the Treasury is responsible for decisions to manage current liquidity. The Treasury reviews payment schedules biweekly and manages liquidity position real-time by selling investment securities, placing or attracting short-term resources at interbank market or through other available financial facilities. The Treasury also analyses the possible consequences of the withdrawal of a large amount of funds by major customers to minimise unexpected changes in funding requirements. Responsible divisions coordinate changes in scheduled payments with the customers if required. The Treasury ensures compliance with the mandatory reserve requirement and the regulatory liquidity ratios. The Credit Committee reviews liquidity risk reports to control the decisions.

The Bank also has a liquidity crisis plan in place, which includes early warning indicators and a step-by-step procedures in the event of unexpected liquidity emergencies for the divisions of the Bank as well as for their coordination. The Finance and Risk Division also regularly conducts liquidity stress-testing under normal or more severe market conditions scenarios.

The tables below analyze the financial liabilities of the Branch into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

3 Financial risk management (Continued)

Liquidity risk (continued)

At 31 December 2017:

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial liabilities						
Deposits from banks:						
- Due to Head Office	6,376	44,045	123,685	93,701	152,528	**420,335**
- Due to other banks	5	9	41	601	-	**656**
Deposits from customers	266,613	3,388	12,230	26,796	-	**309,027**
Trade payables	199	-	-	-	-	**199**
Total financial liabilities	**273,193**	**47,442**	**135,956**	**121,098**	**152,528**	**730,217**
Credit related commitments (off-balance sheet items)						
Import letters of credit	2,140	-	-	-	-	**2,140**
Guarantees issued	13	-	-	-	-	**13**
Less: Cash covered credit related commitments	(2,140)	-	-	-	-	**(2,140)**
Total credit related commitments (off- balance sheet items)	**13**	**-**	**-**	**-**	**-**	**13**

3 Financial risk management (Continued)

Liquidity risk (continued)

At 31 December 2016:

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial liabilities						
Deposits from banks:						
- Due to Head Office	2,753	3,756	11,102	239,303	181,876	**438,790**
- Due to other banks	1,479	329	1,307	748	-	**3,863**
Deposits from customers	226,001	19,844	185,133	52,860	-	**483,838**
Foreign exchange forward contracts liability	54,868	-	-	-	-	**54,868**
Trade payables	207	-	-	-	-	**207**
Total financial liabilities	**285,308**	**23,929**	**197,542**	**292,911**	**181,876**	**981,566**
Credit related commitments (off-balance sheet items)						
Unutilised credit lines	11,120	-	-	-	-	**11,120**
Import letters of credit	2,423	-	-	-	-	**2,423**
Guarantees issued	15	-	-	-	-	**15**
Less: Cash covered credit related commitments	(2,423)	-	-	-	-	**(2,423)**
Less: Provision for losses on credit related commitments	(7,056)	-	-	-	-	**(7,056)**
Total credit related commitments (off- balance sheet items)	**4,079**	**-**	**-**	**-**	**-**	**4,079**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Branch and its exposure to changes in interest and exchange rates.

3 Financial risk management (Continued)

Liquidity risk (continued)

The table below summarises exposure analysis of financial assets and liabilities by expected maturity.

	2017			2016		
	Less than one year €'000	Over one year €'000	Total €'000	Less than one year €'000	Over one year €'000	Total €'000
Assets						
Cash on hand	932	-	**932**	2,534	-	**2,534**
Balances with the Central Bank of Cyprus	-	52,998	**52,998**	-	52,965	**52,965**
Loans and advances to banks:						
- Balances with Head Office	22,366	-	**22,366**	142,061	-	**142,061**
- Balances with other banks	193	-	**193**	29	-	**29**
Loans and advances to customers	-	33,864	**33,864**	244	138,904	**139,148**
Total assets	**23,491**	**86,862**	**110,353**	**144,868**	**191,869**	**336,737**
Liabilities						
Deposits from banks:						
- Balances with Head Office	149,042	205,301	**354,343**	-	347,020	**347,020**
- Balances with other banks	-	574	**574**	3,013	656	**3,669**
Deposits from customers	14,979	288,599	**303,578**	360,004	98,894	**458,898**
Foreign exchange forward contracts - liability	-	-	**-**	-	54,868	**54,868**
Trade payables	199	-	**199**	207	-	**207**
Total liabilities	**164,220**	**494,474**	**658,694**	**363,224**	**501,438**	**864,662**

4 Critical accounting estimates and judgements

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

4 Critical accounting estimates and judgements (Continued)

Going concern

These financial statements have been prepared on the going concern basis, which assumes that the Branch will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of business.

For the year ended 31 December 2017, the Branch recognised a net loss of €44,579 thousand resulting primarily from €81,103 thousand of charge for impairment of loans and advances to customers and €6,900 thousand impairment of repossessed collateral. The Branch's Head Office account was a cumulative loss of €381,438 thousand as at 31 December 2017. In addition, the Branch had a gap of €136,298 thousand between assets and liabilities with maturity of less than one year, which may lead to the Branch's inability to meet its payment obligations. Also, as at 31 December 2017, the Branch was not in compliance with the following requirements of the Central Bank of Cyprus:

A. *Liquid assets ratio.* At 31 December 2017 prudential liquidity ratios of the Branch was not in compliance with the Central Bank of Cyprus requirements and were as follows: up to 7 days – (61.86)% (the minimum values was set as -7.50); 8 days to 1 month – (62.90)% (the minimum values was set as -20.00); liquid assets ratio – 11.82% (the minimum values was set as 25.00).

The Branch's ability to meet its obligations is dependent on the financial support of the Head Office and, therefore, dependant of the ability of the Bank to continue as a going concern and its willingness to maintain its presence in Cyprus through the Branch.

For the year ended 31 December 2017, the Bank recognized net loss of UAH 23,914 million, which was mainly due to the recognition of impairment of loans and advances to customers of UAH 18,346 million and impairment of repossessed collateral of UAH 11,559 million. In addition, the Bank had a gap of UAH 153,455 million between assets and liabilities with a maturity of up to one year, which could lead to the Bank's failure to meet its current obligations.

In 2017, according to the Shareholder's decision, the Bank's share capital was increased by UAH 38,565 million.

During 2018, the Bank is going to implement a number of measures aimed at increasing the amount of performing assets, repayment of non-performing assets and enhancing the Bank's operational efficiency:

- to increase quality of loan portfolio by 5%;
- to increase deposit portfolio by 8%;
- to ensure further growth of fee and commission income;
- to get repayment of part of toxic assets, which as at 31 December 2017 amounted to UAH 185,575 million, less allowance for impairment;
- to reshare outlets in the network to full scope services outlets;
- to maintain capital adequacy at the level of 14-15%;
- to keep a position of one of the largest tax payers to the State Budget of Ukraine.

Management, taking into consideration the amendment of the Branch's banking license factors described in Note 1 and the factors described above satisfied that the Branch has access to the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate, despite the fact that, as disclosed above, the Branch is currently not in compliance with its liquidity regulatory requirements, and that its banking licensed is limited as described in Note 1, which can be considered as a material, uncertainty as to its ability to continue as a going concern.

4 Critical accounting estimates and judgements (Continued)

Impairment losses on loans and advances to customers

The Branch reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Branch makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decreases in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss incurred. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

Income taxes

Judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Branch recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Repossessed collateral

The Branch policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Branch's policy.

5 Interest income and expense

	2017 €'000	2016 €'000
Interest income		
Due from Head Office	-	26,481
Due from other banks	-	66
Loans and advances to customers	13,168	51,163
Total interest income	**13,168**	**77,710**
Interest expenses		
Due to Head Office	15,798	15,490
Due to related banks	92	336
Deposits from customers	3,624	53,072
Total interest expense	**19,514**	**68,898**
Net interest income	**(6,346)**	**8,812**

6 Impairment charges from credit losses and repossessed collateral

	2017 €'000	2016 €'000
Impairment charge/(reversal) arising from:		
Loans and advances to customers	81,103	350,908
Credit related commitments	(6,593)	7,055
Repossessed collateral	6,900	-
Total	**81,410**	**357,963**

7 Fee and commission income and expense

	2017 €'000	2016 €'000
Fee and commission income		
Cash and settlement services	413	2,110
Letters of credit and guarantees	1	19
Other fee and commission income	4	19
Total	**418**	**2,148**
Fee and commission expense		
Cash and settlement transact ions	4	26

8 General and administrative expenses

	Note	2017 €'000	2016 €'000
Staff costs	9	1,360	1,422
Depreciation of leasehold improvements and equipment	14	175	198
Operating lease rentals		198	195
Professional fees		247	282
Legal fees		220	124
Statutory auditor - audit fees		85	160
Statutory auditor – tax consultancy services		11	76
Mail and telecommunications		64	98
Maintenance costs		21	30
Bank levy on customer deposits		252	941
Fines paid		-	1,305
Other expenses		406	221
Total		**3,039**	**5,052**

9 Staff costs

	2017 €'000	2016 €'000
Wages and salaries	1,247	1,273
Social insurance and other contributions	113	149
Total	**1,360**	**1,422**

9 Staff costs (Continued)

In 2017, the average number of the employees of the Branch was 28 (2016: 36).

10 Income tax expense

	2017 €'000	2016 €'000
Current tax:		
Income tax	-	113
Total	**-**	**113**

The tax on the Branch's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2017 €'000	2016 €'000
Loss before income tax	**(44,579)**	**(350,987)**
Tax calculated at the applicable corporation tax rate of 12.5%	(5,572)	(43,873)
Tax effect of expenses not deductible for tax purposes	890	1,056
Tax effect of allowances and income not subject to tax	(6,553)	-
Tax effect of tax losses carried forward	11,235	42,817
Overpayment of tax		113
Income tax charge	**-**	**113**

The Branch is subject to income tax on taxable profits at the rate of 12.5%.

Under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 30%.

In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 17% as from 1 January 2014. In certain cases dividends received from other Cyprus tax resident companies may also be subject to special contribution for defence.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc.) are exempt from Cyprus income tax.

Tax losses may be carried forward for a period of five years from the end of the tax year they relate to, but no carry back of tax losses is allowed. At 31 December 2016, the Branch had cumulative tax losses in Cyprus amounting to €434,219 thousands (2016: €344,355 thousands), which can be carried forward and set off against future taxable profits as follows: €1,800 thousand until 31 December 2020, €342,535 thousand until 31 December 2021 and €89,884 thousand until 31 December 2022. No deferred tax asset is recognised in respect of these losses as the Branch does not expect to generate sufficient taxable profits for these losses to be realised.

11 Cash on hand and balances with Central Bank of Cyprus

	2017 €'000	2016 €'000
Cash on hand	932	2,534
Mandatory reserve account with the Central Bank of Cyprus*	2,998	2,299
Compulsory deposit account with the Central Bank of Cyprus*	50,000	50,000
Cash balances with the Central Bank of Cyprus	-	666
Total	**53,930**	**55,499**

* The amounts are not currently available for use to the Branch.

12 Loans and advances to customers

	2017 €'000	2016 €'000
Loans and advances to corporate entities	451,304	522,345
Loans and advances to individuals	35	52
Interest accrued on loans and advances	14,366	16,618
Gross carrying amount	**465,705**	**539,015**
Less: allowance for losses on loans and advances to customers	**(431,841)**	**(399,867)**
Net carrying amount	**33,864**	**139,148**

Interest income on impaired loans amounts to €13,168 thousand (2016: €27,300 thousand).

During 2016, the Branch repossessed collateral under defaulted loan agreements with a carrying value of €197,620 thousand as at 31 December 2016. Refer to Note 13.

12 Loans and advances to customers (Continued)

The movement of the collective and specific allowance for impairment losses on loans and advances to customers is as follows:

	2017 €'000			2016 €'000		
	Specific allowance for impairment	Collective allowance for impairment	Total	Specific allowance for impairment	Collective allowance for impairment	Total
Balance at 1 January	399,862	5	**399,867**	45,644	1,273	**46,917**
Provision for impairment	81,106	(4)	**81,102**	352,228	(1,325)	**350,903**
Foreign exchange difference	(49,128)	-	**(49,128)**	1,985	57	**2,042**
Balance at 31 December	**431,840**	**1**	**431,841**	**399,862**	**5**	**399,867**

Economic and business sector risk concentrations within the customer loan portfolio are as follows:

	2017 €'000	2017 %	2016 €'000	2016 %
Individuals	41	-	59	-
Oil trading	36,520	8	45,120	8
Commerce and finance	161,644	35	184,321	35
Agriculture, forestry and food industry	1,723	-	1,722	-
Metallurgy and mining	105,031	23	119,818	22
Securities trading	25,065	5	28,601	5
Transport , storage and communication	133,712	29	157,352	30
Other	1,969	-	2,022	-
Gross carrying amount	**465,705**	**100**	**539,015**	**100**

As at 31 December 2017, the Branch's 10 biggest customers by value of advances accounted for 80% (31 December 2016: 80%) of the loans and advances to customers.

Analysis by credit quality of loans and advances to customers is as follows:

	2017 €'000	2016 €'000
Neither past due nor impaired	-	78
Past due but not impaired	-	138
Individually impaired	465,705	538,799
Total loans and advances to customers	**465,705**	**539,015**

12 Loans and advances to customers (Continued)

Analysis by credit quality of neither past due nor impaired loans and advances to customers outstanding at 31 December is as follows:

	2017 €'000	2016 €'000
Loans to small entities	-	78
Total neither past due nor impaired	**-**	**78**

The ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

	2017 €'000	2016 €'000
Less than 30 days overdue	-	6
30 to 90 days overdue	-	132
Total past due but not impaired	**-**	**138**

Breakdown of loans and advances to customers by type of collateral is as follows:

	2017 €'000	2016 €'000
Unsecured exposures	180,808	69,202
Loans collateralised by:		
- cash deposits	95,205	108,361
- listed equity securities	2,464	2,811
- transport vehicles	56,181	161,763
- real estate	2,095	2,356
- equipment	3,314	54,815
- other assets	125,638	139,707
Total loans and advances to customers (before impairment)	**465,705**	**539,015**

Other assets held as collateral mainly include contracts for the acquisition and sale of gas, oil and other commodities as well as corporate guarantees.

12 Loans and advances to customers (Continued)

The table below indicates the financial effect of collateral on the net loans and advances to customers:

2017 €'000				2016 €'000			
Over-collateralised loans		**Under-collateralised loans**		**Over-collateralised loans**		**Under-collateralised loans**	
Carrying value of loans and advances to customers	Expected cash flows from collateral realisation	Carrying value of loans and advances to customers	Expected cash flows from collateral realisation	Carrying value of loans and advances to customers	Carrying value of loans and advances to customers	Carrying value of loans and advances to customers	Carrying value of loans and advances to customers
14	5,244	33,850	29,693	138,803	164,641	345	-

13 Repossessed collateral

In 2016, the Branch took possession of various collateral as a settlement of past due loans to customers with a total carrying value of €197,620 thousand as at 31 December 2016. The Branch expects to dispose of these assets in an orderly fashion. The assets were initially recognised at fair value when repossessed.

In December 2017, Management recorded impairment of the repossessed collateral in the amount of €6,900 thousand.

14 Leasehold improvements and equipment

	Furniture and equipment €'000	Motor vehicles €'000	Computers €'000	Leasehold improve-ments €'000	Total €'000
At 1 January 2016					
Cost	339	45	307	667	**1,358**
Accumulated depreciation	(228)	(45)	(287)	-	**(560)**
Net book amount	**111**	**-**	**20**	**667**	**798**
Amount written off-cost	(52)	(5)	(12)	-	**(69)**
Amount written off- accumulated depreciation	48	5	12	-	**65**
Additions	86	-	22	-	**108**
Depreciation charge	(39)	-	(9)	(150)	**(198)**
At 31 December 2016					
Cost	373	40	317	667	**1,397**
Accumulated depreciat ion	(219)	(40)	(284)	(150)	**(693)**
Net book amount	**154**	**-**	**33**	**517**	**704**
Amount written off-cost	(15)	-	-	(63)	**(78)**
Amount written off- accumulated depreciation	14	-	-	-	**14**
Depreciation charge	(18)	-	(11)	(146)	**(175)**
At 31 December 2017					
Cost	358	40	317	604	**1,319**
Accumulated depreciation	(223)	(40)	(295)	(296)	**(854)**
Net book amount	**135**	**-**	**22**	**308**	**465**

15 Due to Head Office and related banks

	2017 €'000	2016 €'000
Due to Head Office	354,343	347,020
Entities under common control with the Branch	574	3,669
Current accounts and deposits	**354,917**	**350,689**

16 Deposits from customers

	2017 €'000	2016 €'000
Legal entities:		
- current accounts	22,226	44,274
- term accounts	247,900	356,320
Total	**270,126**	**400,594**
Individuals:		
- current accounts	4,013	10,591
- term deposits	29,439	47,713
Total	**33,452**	**58,304**
Total deposits from customers	**303,578**	**458,898**

From the above deposits an amount equal to €12,341 thousand (31 December 2016: €13,603 thousand) was pledged as security for the loans and advances to customers.

As at 31 December 2017 the Branch's 10 biggest customers by deposit value accounted for 82% (31 December 2016: 71%) of the customer deposits.

16 Deposits from customers (Continued)

Economic sector concentrations within customer deposits are as follows:

	2017		2016	
	€'000	%	€'000	%
Individuals	33,452	11	58,304	13
Services	155,040	51	183,836	40
Trading and finance	110,986	37	158,878	35
Manufacturing	16	-	273	-
Mechanical engineering	2	-	315	-
Transport and communication	4,079	1	57,288	13
Agriculture	3	-	4	-
Other	-	-	-	-
Total	**303,578**	**100**	**458,898**	**100**

17 Other liabilities

	2017 €'000	2016 €'000
Funds in the process of settlement	89	853
Other payables and accruals	731	343
Provision for losses on credit related commitments	-	7,055
Foreign exchange forward contracts	-	54,868
Total	**820**	**63,119**

18 Bail in

As discussed in Note 1, the DGF issued a series of decisions to convert certain amounts due to customers into the Bank's share capital. One of the DGF's decisions dated 21 December 2016 applied to the Branch and covered a number of the Branch's deposits from customers and a balance due to a related bank (the "Order No10"). The balances of the Branch's deposits from customers and a balance due to a related bank included in the Order No10 were $307,535 thousand, €8,727 thousand and £100 thousand as per the order.

However, as also discussed in Note 1, on 20 December 2016, the CBC amended the Branch's banking license. As per the amended license, the Branch is not allowed to carry out interbank transactions with the Head Office and other related banks. Thus, the actions prescribed in the Order No10 contradicted with the provisions of the amended banking license. In view of the above, the DGF issued a new decision dated 21 December 2016, which suspended the Order No10 (the “Order No11”).

The Bank and the Branch are currently assessing the legal implications of the Order No10 and the Order No11. The outcome of the aforementioned transactions is not yet known as of the date of the approval of these financial statements.

18 Bail in (Continued)

On 4 May 2017, the Head Office issued a decision ordering the Branch to terminate the interest accrual on deposits included in the Order No10. The accrual of the interest was terminated in the Branch records for the affected deposits from customers effective 19 December 2016.

Also, the Branch is currently involved in several legal actions and court cases, including subsequent to the bail-in procedure. Balances on the customer accounts of the clients involved in litigations with the Branch were €247,943 thousand as at 31 December 2017 (2016: €283,341 thousand). The Bank engaged experienced international law companies to protect its interests that could be affected as result of the legal actions. The ultimate outcome can not be determined. Consequently, the Branch does not recognize any provision for these claims.

19 Presentation of financial instruments by measurement category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. The standard classifies financial liabilities into the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at fair value through profit or loss. In addition, derivative instruments form a separate category.

The following table provides a reconciliation of financial assets and liabilities with these measurement categories as at 31 December:

	Loans and receivables	
	2017	**2016**
	€'000	**€'000**
Assets as per the statement of financial position:		
Balances with the Central Bank of Cyprus	52,998	52,965
Due from banks	22,559	142,090
Loans and advances to customers	33,864	139,148
Total	**109,421**	**334,203**

	Other financial liabilities at amortized cost	
	2017	**2016**
	€'000	**€'000**
Liabilities as per the statement of financial position:		
Due to Head Office and related banks	354,917	350,689
Deposits from customers	303,578	458,898
Other liabilities	820	63,119
Total	**659,315**	**872,706**

20 Related party transactions and balances

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

During the year, a number of banking transactions were entered into with the Head Office in the normal course of business. Transactions and balances with the Head Office and related banks are disclosed in Notes 5,15 and 17 of the financial statements.

Key management compensation:

	2017 €'000	2016 €'000
Salaries and other short-term employee benefits	63	60

As discussed in Note 1, the Bank is 100% owned by the Government of Ukraine starting from 19 December 2016. Other transactions and balances with related parties before the change in the Bank's ownership, which are not included in the notes mentioned above are as follows:

Entities under common control (as of 16 December 2016 or for the period 1 January 2016 through 16 December 2016):

	2016 €'000
Deposits from customers	8,468
Loans and advances to customers	146,501
Repossessed collateral	190,361
Interest income on loans from customers	12,312
Interest expense on customers' deposits	3,561
Fee and commission income	326
Currency dealing profit	128

21 Credit related commitments

The contractual amount of credit related commitments represents the maximum credit exposure should the contract be fully drawn upon, the client defaults, and the value of any security becomes worthless.

	2017 €'000	2016 €'000
Unutilised credit lines	-	11,120
Import letters of credit	2,140	2,422
Guarantees issued	13	15
Less: Cash covered credit related commitments	(2,140)	(2,423)
Less: Provisions for credit related commitments	-	(7,055)
Total	**13**	**4,079**

21 Credit related commitments (Continued)

In 2016, provisions for irrevocable commitments to extend credit were made for the total amount of €7,055 thousand. In 2017, due to the restricted nature of the amended banking license of the Branch (as discussed in Note 1), the Branch concluded that the unutilised portions of the credit lines could not be serviced by the Branch and, accordingly, the provision for the unutilised credit lines was reversed in the amount of €6,593 thousand.

Operating lease commitments – where the Branch is the lessee

The Branch leases various offices under non-cancellable operating lease agreements with varying terms and renewal rights.

The future aggregate minimum lease payments under non-cancellable building operating leases are as follows:

	2017 **€'000**	**2016** **€'000**
Within one year	192	186
Later than one year and not later than five years	182	364
Later than five years	-	-
Total	**374**	**550**

22 Share grant reserve

In 2010, the majority shareholders of the Bank proposed to management to buy shares of the Bank at a price below their nominal value. The difference between the fair value of the shares and the price of the offer at the moment of the proposal in relation to share grants allocated to the Branch management was €1,188 thousand and was accounted for as remuneration to the Branch management being part of the administrative and other expenses of year 2010. The number of shares offered to the Branch management was 48,491 shares. As at the date of share grant the exercise price was about UAH 114 per share (approximately €10.72 per share).

After the Nationalisation of the Bank, all the shares of previous management were converted into the Bank's equity. In case of the Branch, the share grant reserve was reclassified into accumulated losses.

Additional information to the financial statements

Additional risk disclosures (unaudited)

The table below presents an analysis of the Branch’s credit facilities portfolio according to performance status, as at 31 December 2017.

Table A

Analysis of loan portfolio

	Gross carrying amount				Accumulated impairment			
		of which non-performing exposures	of which exposures with forbearance measures			of which non-performing exposures	of which exposures with forbearance measures	
				of which non-performing exposures				of which non-performing exposures
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances	465,705	465,705	103,829	103,829	431,841	431,842	101,035	101,035
General governments								
Other financial corporations	92,883	92,883	9,948	9,948	92,873	92,873	9,948	9,948
Non-financial corporations	372,684	372,684	93,863	93,863	338,831	338,832	91,069	91,069
Of which: Small and Medium-sized Enterprises	314,568	314,568	69,909	69,909	281,252	281,252	67,548	67,548
Of which: Commercial real estate	8,888	8,888	-	-	8,888	8,888	-	-
By sector								
1. Transportation and storage	197,559	197,559			164,833			
2. Wholesale and retail trade; repair of motor vehicles and motorcycles	160,375	160,375			159,424			
3. Real estate activities	10,636	10,636			10,636			
4. Professional, scientific and technical activities	2,276	2,276			2,100			
5. Manufacturing	1,785	1,785			1,785			
Other sectors	53	53			53			
Households	138	138	18	18	137	137	18	18
Of which: Residential mortgage loans								
Of which: Credit for consumption	138	138	18	18	137	137	18	18

* Excluding loans and advances to central banks and credit institutions

Additional information to the financial statements (Continued)

The analysis of loans and advances to customers excluding loans and advances to general government by year of origination is presented in the table below for balances as at 31 December 2017.

Table B

Loans and advances to customers (excl.general governments) analysed on the basis of their origination date

	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
Total loans granted		**Non-performing loans**	**Accumulated impairment**		**Non-performing loans**	**Accumulated impairment**		**Non-performing loans**	**Accumulated impairment**		**Non-performing loans**	**Accumulated impairment**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	-	-	-	-	-	-	-	-	-	-	-	-
1 - 2 years	270,445	270,445	238,771	189,222	189,222	157,550	81,222	81,222	81,221	1	1	-
2 - 3 years	137,321	137,321	135,309	130,770	130,770	128,758	6,551	6,551	6,551	-	-	-
3 - 5 years	12	12	8	12	12	8	-	-	-	-	-	-
5 - 7 years	38,209	38,209	38,208	33,573	33,573	33,572	4,618	4,618	4,618	18	18	18
7 - 10 years	16,003	16,003	15,931	15,977	15,977	15,916	26	26	15	-	-	-
more than 10 years	3,715	3,715	3,614	3,130	3,130	3,027	466	466	468	119	119	119
Total loans granted	**465,705**	**465,705**	**431,841**	**372,684**	**372,684**	**338,831**	**92,883**	**92,883**	**92,873**	**138**	**138**	**137**