



## **PRIVATBANK GROUP**

### **Consolidated Financial Statements together with Independent Auditor's Report**

**31 December 2017**

Translation from Ukrainian original

**CONTENTS**

## INDEPENDENT AUDITOR'S REPORT

## CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position .....	1
Consolidated Statement of Profit or Loss and Other Comprehensive Income .....	2
Consolidated Statement of Changes in Equity .....	3
Consolidated Statement of Cash Flows .....	5

## Notes to the Consolidated Financial Statements

1	Introduction .....	6
2	Operating Environment of the Group .....	7
3	Summary of Significant Accounting Policies .....	7
4	Critical Accounting Estimates, and Judgements in Applying Accounting Policies .....	17
5	Adoption of New or Revised Standards and Interpretations .....	18
6	New Accounting Pronouncements .....	19
7	Cash and Cash Equivalents and Mandatory Reserves .....	23
8	Due from Banks .....	24
9	Loans and Advances to Customers .....	25
10	Investment Securities Available-for-Sale .....	30
11	Investment Securities Held to Maturity .....	31
12	Investment Properties .....	32
13	Premises, Leasehold Improvements, Equipment and Intangible Assets .....	33
14	Other Assets .....	34
15	Reposessed Collateral .....	34
16	Due to the NBU .....	34
17	Due to Banks and Other Financial Institutions .....	35
18	Customer Accounts .....	35
19	Provisions, Other Financial and Non-financial Liabilities .....	36
20	Share Capital and Other Reserve Funds .....	37
21	Interest Income and Expense .....	39
22	Fee and Commission Income and Expense .....	39
23	Administrative and Other Operating Expenses .....	40
24	Income Taxes .....	40
25	Segment Analysis .....	42
26	Financial Risk Management .....	50
27	Management of Capital .....	62
28	Contingencies and Commitments .....	63
29	Fair Value of Financial Instruments .....	66
30	Presentation of Financial Instruments by Measurement Category .....	70
31	Related Party Transactions .....	72
32	Changes in Liabilities Arising from Financial Activities .....	76
33	Events After the End of the Reporting Period .....	76

## Independent auditor's report

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

### **Qualified Opinion**

We have audited the consolidated financial statements of Public Joint Stock Company Commercial Bank "PrivatBank" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in paragraphs (1), (2), (4), (5) and (9) of the *Basis for qualified opinion* section of our report, and except for the effects of the matters described in paragraphs (3), (6), (7) and (8) of the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for qualified opinion**

1. As at 31 December 2017 and 2016, the Group recognised repossessed properties of UAH 6,716 million and UAH 7,303 million, respectively, within repossessed collateral. We were unable to obtain sufficient appropriate audit evidence in respect of the fair value of these repossessed properties as at 31 December 2017 and 2016. As a result, we were unable to determine whether any adjustments were necessary to the carrying amounts of repossessed collateral as at 31 December 2017 and 2016 and related losses and income for the years then ended.
2. In 2017, the Group recognised UAH 10,727 million of impairment losses on repossessed collateral, UAH 717 million of losses from revaluation of investment properties and UAH 257 million of losses from revaluation of premises. We were unable to obtain sufficient appropriate audit evidence about the period these impairment losses and revaluation losses relate to. As a result, we were unable to determine whether any adjustments were necessary to the consolidated statement of profit or loss and other comprehensive income for 2017 and 2016 and the carrying value of repossessed collateral stated at UAH 14,053 million, investment properties stated at UAH 1,095 million and premises stated at UAH 266 million as at 31 December 2016.

3. The Group did not complete an analysis of whether criteria for derecognition were met in respect of certain amounts due to customers that were subject to conversion into equity as described in Note 1 to the consolidated financial statements. Such amounts due to customers, and a corresponding receivable of UAH 8,057 million (net of impairment allowance of UAH 772 million) as at 31 December 2017 and UAH 8,878 million as at 31 December 2016, as described in Note 14, were recognised in the consolidated statement of financial position of the Group. This receivable does not meet the definition of an asset in accordance with IFRS. As a result, the Group's other assets were overstated by UAH 8,057 million and UAH 8,878 million as at 31 December 2017 and 2016, respectively, and administrative and other operating expenses for 2017 were overstated by UAH 772 million. The effect of not completing the analysis of the criteria for derecognition of the amounts due to customers on the Group's liabilities and equity as at 31 December 2017 and 2016 as well as interest expense and foreign exchange gains and losses for 2017 has not been determined.
4. In 2017, the Group recognised impairment losses of UAH 17,275 million in respect of loans managed as a separate portfolio as described in Note 9. We were unable to obtain sufficient appropriate audit evidence in respect of the period to which impairment losses of UAH 12,557 million relate. As a result, we were unable to determine whether any adjustments were necessary to the consolidated statement of profit or loss and other comprehensive income for 2017 and 2016 and the carrying value of the respective loans and advances as at 31 December 2016.
5. Before 2017, the Group recognised certain internally generated software development costs as intangible assets with a carrying value of UAH 292 million. In 2017, the Group derecognised these intangible assets. Because we were unable to obtain sufficient appropriate audit evidence as to the period when such intangible assets should have been recognised initially and their initial cost, we were unable to determine whether any adjustments were necessary in respect of the carrying value of premises, leasehold improvements, equipment and intangibles as at 31 December 2016 and the consolidated statement of profit or loss and other comprehensive income for 2017 and 2016.
6. In 2017, the Group recognised UAH 291 million of an impairment loss in respect of its investment in an associate. This impairment loss related to 2016. As a result, the impairment losses for 2017 were overstated and, accordingly, the impairment losses for 2016 were understated by UAH 291 million.
7. In 2016, the Group recognised a loss on the redemption of financial liabilities of UAH 1,363 million related to the prior periods as part of interest expenses and foreign exchange translation losses. As a result, interest expenses, foreign exchange translation losses less gains for 2016 and retained earnings as at 31 December 2015 were overstated by UAH 840 million, UAH 523 million and UAH 1,363 million, respectively.
8. The Group recognised UAH 317 million of impairment losses on other assets related to the prior periods as part of administrative and other operating expenses for 2016. As a result, administrative and other operating expenses for 2016 and retained earnings as at 31 December 2015 were overstated by UAH 317 million.

9. We did not express an opinion on the financial performance and cash flows of the Group for the year ended 31 December 2016 in our auditor's report dated 25 May 2017 because of the following:
- a. In 2016, the Group recognised an impairment charge of UAH 154,536 million in respect of loans and advances to customers. 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 consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity for 2016 and 2015.
  - b. In 2016, the Group carried out a restructuring of loans and advances to customers with carrying value of UAH 137,082 million before allowance for impairment as at 31 December 2016. We were unable to obtain sufficient appropriate audit evidence in respect of the effects of the restructuring of such loans on the consolidated statement of profit or loss and other comprehensive income. As a result, we were unable to determine whether any adjustments were necessary to impairment charge on loans and advances to customers, losses on initial recognition of financial assets with lower than market interest rates and interest income for 2016.
  - c. We were unable to obtain sufficient appropriate audit evidence in respect of related party transactions for the period from 1 January 2016 to 19 December 2016, the date of the change in shareholders. As a result, we were unable to determine whether any adjustments were necessary to the disclosure of related party transactions presented in Note 31 to the consolidated financial statements

We conducted our audit of the consolidated financial statements of the Group as at 31 December 2017 in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the consolidated financial statements of the Group as at 31 December 2017.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at 31 December 2017 of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide a basis for our qualified audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<b><i>Allowance for impairment of loans and advances to customers</i></b>	
<p>The appropriateness of allowance for impairment on loans and advances to customers is a key area of judgment for the Group's management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and fair value of collateral.</p> <p>The use of different modelling techniques and assumptions could produce significantly different estimates of allowance for impairment on loans and advances to customers. Taking into account the significance of the loans and advances to customers balances and high level of subjectivity of assumptions, we considered valuation of allowance for impairment on loans and advances to customers as a key audit matter. Notes 9, 26 and 29 to the consolidated financial statements provide information about the allowance for impairment of loans and advances to customers.</p>	<p>Our audit procedures included the assessment of the methodology used by the Group to identify impairment indications and calculation of allowance for impairment, comparing input data to historical information and analysis of assumptions. For the allowance for impairment calculated on an individual basis, we analysed the assumptions underlying the impairment identification and quantification including assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral. For the allowance for impairment calculated on a collective basis, we analysed the underlying models including the inputs to those models and their mathematical accuracy.</p> <p>We assessed the Group's disclosures about the allowance for impairment of loans and advances to customers.</p>
<b><i>Valuation of government bonds</i></b>	
<p>Valuation of government bonds and related embedded derivative financial instruments was a key area of judgments for management due to complexity of estimations and subjective valuation techniques. Taking into account the significance of the carrying amount of government bonds and related embedded derivative financial instruments to the consolidated financial statements and related estimation uncertainty, we considered valuation of the above assets as a key audit matter. Notes</p>	<p>Our audit procedures in respect of the valuation of government bonds included inquiries of the Group's management about the significant assumptions applied, assessment and comparing inputs used to available external information, assessing mathematical accuracy of the calculation and comparing the results in the models to the amounts recognised in the consolidated statement of financial position as at 31 December 2017. We involved our</p>

10, 11 and 29 to the consolidated financial statements provide information on the government bonds and related embedded derivative financial instruments.

valuation specialists to evaluate the methodology and assumptions used.

We assessed the Group's disclosures in relation to the government bonds and related derivative financial instruments.

### **Other information**

Other information consists of the Annual Issuer report of Public Joint Stock Company Commercial Bank "PrivatBank" other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Issuer Report of Public Joint Stock Company Commercial Bank "PrivatBank" is expected to be provided to us after the date of this auditor's report.

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

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

### **Responsibilities of management and the Supervisory Board for the consolidated financial statements**

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

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Yulia Studynska.

*Ernst & Young Audit Services UK*

Kyiv, Ukraine

25 April 2018



Svistich O.M.  
General Director



Studynska Y.S.  
Auditor's certificate B № 0131  
Valid till 24 December 2019

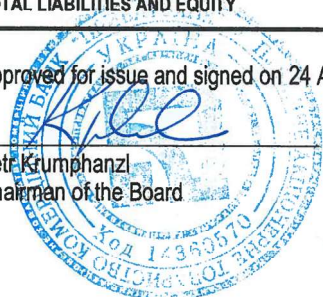
**PRIVATBANK GROUP**  
**Consolidated Statement of Financial Position**

*Translation from Ukrainian original*

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>ASSETS</b>			
Cash and cash equivalents and mandatory reserves	7	25,300	30,159
Due from banks	8	4,516	2,410
Loans and advances to customers	9	38,335	43,582
Embedded derivative assets	10, 11	34,336	27,044
Investment securities available-for-sale	10	90,354	64,409
Investment securities held to maturity	11	36,322	-
Current income tax prepayment		184	181
Investments in an associate		-	507
Investment properties	12	579	1,358
Premises, leasehold improvements, equipment and intangible assets	13	3,376	4,019
Other financial assets		531	269
Other assets	14	9,652	9,585
Repossession collateral	15	11,268	21,836
Assets held for sale		117	-
<b>TOTAL ASSETS</b>		<b>254,870</b>	<b>205,359</b>
<b>LIABILITIES</b>			
Due to the NBU	16	12,394	18,047
Due to banks and other financial institutions	17	234	2,667
Customer accounts	18	212,714	181,128
Debt securities in issue		2	2
Current income tax liability	24	3	1
Deferred income tax liability	24	107	95
Provisions, other financial and non-financial liabilities	19	4,405	4,010
Subordinated debt		129	122
<b>TOTAL LIABILITIES</b>		<b>229,988</b>	<b>206,072</b>
<b>EQUITY</b>			
Share capital	20	206,060	50,695
Share premium	20	23	23
Contributions received for new shares issued but not registered	20	-	111,591
Revaluation reserve of premises	13	782	820
Unrealised (losses)/gains on investment securities available-for-sale		(479)	521
Result from transactions with the shareholder	10, 11	12,174	9,934
Currency translation reserve		27	29
Accumulated deficit		(193,706)	(174,327)
<b>Net assets attributable to the Bank's shareholder</b>		<b>24,881</b>	<b>(714)</b>
Non-controlling interest		1	1
<b>TOTAL EQUITY</b>		<b>24,882</b>	<b>(713)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>254,870</b>	<b>205,359</b>

Approved for issue and signed on 24 April 2018.

Petr Krumphanzl  
Chairman of the Board





Valentyna V. Yarmolenko  
Chief Accountant

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2017</b>	<b>2016</b>
Interest income	21	24,485	31,560
Interest expense	21	(18,373)	(29,474)
<b>Net interest income</b>		<b>6,112</b>	<b>2,086</b>
Charge for impairment of loans and advances to customers	9	(18,346)	(154,536)
<b>Net interest income after charge for impairment of loans and advances to customers</b>		<b>(12,234)</b>	<b>(152,450)</b>
Fee and commission income	22	13,211	10,692
Fee and commission expense	22	(3,017)	(2,298)
Gains less losses from investment securities available-for-sale		-	1,981
Gains less losses from other financial assets at fair value through profit or loss		-	208
Gains less losses/(Losses less gains) from embedded derivatives	29	3,491	(23,955)
Gains less losses/(Losses less gains) from trading in foreign currencies and swaps		1,084	(188)
Foreign exchange translation losses less gains		(2,501)	(4,221)
Impairment of investments in an associate		(342)	-
Share of loss of an associate		(46)	-
Gains less losses from disposal of investments in subsidiary		-	176
Losses on the valuation of investment properties and premises		(1,112)	(16)
Intangible assets write off		(292)	-
Impairment of repossessed collateral		(11,559)	-
Administrative and other operating expenses	23	(12,240)	(10,639)
Other income		1,607	3,490
Other losses		(14)	-
<b>Loss before tax</b>		<b>(23,964)</b>	<b>(177,220)</b>
Income tax (expense)/credit	24	(26)	576
<b>Net loss for the year</b>		<b>(23,990)</b>	<b>(176,644)</b>
<b>Other comprehensive income/(loss):</b>			
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Available-for-sale investments:			
- Unrealised (losses)/gains on investment securities available-for-sale		(1,000)	609
- Realised gains reclassified to profit or loss on investment securities available-for-sale		-	(1,981)
- Gains less losses reclassified to profit or loss upon disposal of subsidiaries		-	5
Income tax effect	24	-	312
Exchange differences on translation to presentation currency			
- Differences on translation to presentation currency arising during the year		(2)	122
- Differences on translation to presentation currency reclassified to profit or loss upon disposal of subsidiaries		-	(590)
<i>Items that will not be reclassified to profit or loss:</i>			
Valuation of premises	13	(22)	351
Income tax effect	24	4	(62)
<b>Other comprehensive loss</b>		<b>(1,020)</b>	<b>(1,234)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(25,010)</b>	<b>(177,878)</b>
<b>Loss is attributable to:</b>			
Shareholder of the Bank		(23,990)	(176,462)
Non-controlling interest		-	(182)
<b>Loss</b>		<b>(23,990)</b>	<b>(176,644)</b>
<b>Total comprehensive loss is attributed to:</b>			
Shareholder of the Bank		(25,010)	(177,667)
Non-controlling interest		-	(211)
<b>Total comprehensive loss</b>		<b>(25,010)</b>	<b>(177,878)</b>
<b>Earnings per share for loss attributable to the shareholder of the Bank, basic and diluted (expressed in UAH per share)</b>	<b>20</b>	<b>(57.00)</b>	<b>(2,233.70)</b>

Approved for issue and signed on 24 April 2018.


 Petr Krumphanzl  
 Chairman of the Board


 Valentyna V. Yarmolenko  
 Chief Accountant

**PRIVATBANK GROUP**  
**Consolidated Statement of Changes in Equity**

*Translation from Ukrainian original*

	Note	Attributable to the shareholder of the Bank									Non-Total equity controlling interest	
		Share capital	Share premium	Contributions received for new shares issued but not registered	Revaluation reserve of premises	Unrealised (losses)/gains on investment securities available-for-sale	Result from transactions with the shareholder	Currency translation reserve	Accumulated deficit	Total		
In millions of Ukrainian hryvnias												
Balance at 1 January 2016		21,257	23	-	568	1,493	-	815	4,312	28,468	577	29,045
Loss for the year		-	-	-	-	-	-	-	(176,462)	(176,462)	(182)	(176,644)
Other comprehensive income/(losses) for the year		-	-	-	289	(972)	-	(522)	-	(1,205)	(29)	(1,234)
Total other comprehensive income/(losses) for the year		-	-	-	289	(972)	-	(522)	(176,462)	(177,667)	(211)	(177,878)
Conversion of liabilities to equity	20	29,438	-	-	-	-	-	-	-	29,438	-	29,438
Increase in share capital financed by government bonds	20	-	-	107,000	-	-	-	-	-	107,000	-	107,000
Effect from initial recognition of government bonds received as a contribution into the share capital	20	-	-	-	-	-	9,934	-	-	9,934	-	9,934
Other increase in share capital	20	-	-	4,591	-	-	-	-	(2,583)	2,008	-	2,008
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(12)	-	-	-	12	-	-	-
Other changes in interest attributable the Bank's shareholder and non-controlling interest		-	-	-	-	-	-	-	105	105	165	270
Disposal of investments in subsidiary		-	-	-	(25)	-	-	(264)	289	-	(530)	(530)
Balance at 31 December 2016		50,695	23	111,591	820	521	9,934	29	(174,327)	(714)	1	(713)

The notes set out on pages 6 to 76 form an integral part of these consolidated financial statements.

**PRIVATBANK GROUP**  
**Consolidated Statement of Changes in Equity**

*Translation from Ukrainian original*

(Continued)

	Note	Share capital	Share premium	Contributions received for new shares issued but not registered	Attributable to the shareholder of the Bank			Currency translation reserve	Accumulated deficit	Total	Non-controlling interest	Total equity
					Revaluation reserve of premises	Unrealised (losses)/gains on investment securities available-for-sale	Result from transactions with the shareholder					
<i>In millions of Ukrainian hryvnias</i>												
<b>Balance at 1 January 2017</b>		<b>50,695</b>	<b>23</b>	<b>111,591</b>	<b>820</b>	<b>521</b>	<b>9,934</b>	<b>29</b>	<b>(174,327)</b>	<b>(714)</b>	<b>1</b>	<b>(713)</b>
Loss for the year		-	-	-	-	-	-	-	(23,990)	(23,990)	-	(23,990)
Other comprehensive losses for the year		-	-	-	(18)	(1,000)	-	(2)	-	(1,020)	-	(1,020)
Total other comprehensive losses for the year		-	-	-	(18)	(1,000)	-	(2)	(23,990)	(25,010)	-	(25,010)
Increase in share capital financed by government bonds	20	-	-	48,365	-	-	-	-	-	48,365	-	48,365
Effect from initial recognition of government bonds received as a contribution into the share capital	20	-	-	-	-	-	2,240	-	-	2,240	-	2,240
Registration of share capital	20	155,365	-	(155,365)	-	-	-	-	-	-	-	-
Other decrease in share capital	20	-	-	(4,591)	-	-	-	-	4,591	-	-	-
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(20)	-	-	-	20	-	-	-
<b>Balance at 31 December 2017</b>		<b>206,060</b>	<b>23</b>	<b>-</b>	<b>782</b>	<b>(479)</b>	<b>12,174</b>	<b>27</b>	<b>(193,706)</b>	<b>24,881</b>	<b>1</b>	<b>24,882</b>

Approved for issue and signed on 24 April 2018.

  
Petr Krumphanzl  
Chairman of the Board


  
Valentyna V. Yarmolenko  
Chief Accountant


**PRIVATBANK GROUP**  
**Consolidated Statement of Cash Flows**

Translation from Ukrainian original

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
Interest received		20,866	22,370
Interest paid		(18,474)	(29,819)
Fee and commission received		13,211	10,692
Fee and commission paid		(3,017)	(2,298)
Income received on embedded derivatives		-	953
Income received/(expenses incurred) on trading in foreign currencies		1,084	(136)
Income received on other financial assets at fair value through profit or loss		-	208
Staff costs paid		(4,554)	(3,441)
Administrative and other operating expenses paid, except for staff costs paid		(5,442)	(5,377)
Other operating income received		1,607	2,573
Income tax paid		(5)	(104)
<b>Cash flow from/(used in) operating activities before changes in operating assets and liabilities</b>		<b>5,276</b>	<b>(4,379)</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in mandatory reserve balances		(35)	(1,199)
Net decrease in other financial assets at fair value through profit or loss		-	238
Net (increase)/decrease in due from banks		(1,930)	2,233
Net increase in loans and advances to customers		(10,382)	(3,505)
Net (increase)/decrease in other financial assets		(185)	138
Net increase in other assets		(1,050)	(792)
Net (increase)/decrease in due to banks and other financial institutions		(2,380)	1,096
Net decrease/(increase) in customer accounts		25,174	(15,184)
Net increase in provisions, other financial and non-financial liabilities		(359)	(388)
<b>Net cash from/(used in) operating activities</b>		<b>14,129</b>	<b>(21,742)</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities available-for-sale		(10,788)	-
Proceeds from sale and redemption of investment securities available-for-sale		1,400	27,886
Acquisition of investment securities held to maturity		(4,440)	-
Proceeds from redemption of investment securities held to maturity		285	263
Proceeds from sales of premises, leasehold improvements and equipment		83	10
Acquisition of premises, leasehold improvements, equipment and intangible assets		(628)	(1,224)
Disposal of investments in subsidiary		-	(3,372)
<b>Net cash (used in)/from investing activities</b>		<b>(14,088)</b>	<b>23,563</b>
<b>Cash flows from financing activities</b>			
Proceeds from the NBU refinancing loans	16	17,201	25,000
Repayment of the NBU refinancing loans	16	(22,876)	(33,663)
Repayment of debt securities issued		-	(1,010)
<b>Net cash used in financing activities</b>		<b>(5,675)</b>	<b>(9,673)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>486</b>	<b>1,203</b>
<b>Net increase in cash and cash equivalents</b>		<b>(5,148)</b>	<b>(6,649)</b>
Cash and cash equivalents at the beginning of the year	7	28,673	35,322
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>23,525</b>	<b>28,673</b>

Approved for issue and signed on 24 April 2018.

  
Petr Krumphanzl  
Chairman of the Board

  
Valentyna V. Yarmolenko  
Chief Accountant

## **1 Introduction**

Public Joint Stock Company Commercial Bank PrivatBank ("PJSC PrivatBank" or "the Bank") and its subsidiaries (together referred to as the "Group") was initially registered as a limited liability company and then, re-organised into a closed joint stock entity in 2000. In 2009, the Bank changed its legal form to a public joint stock company, where shareholders liability is limited by number of shares owned 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 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 ('bail in'). On 21 December 2016, subsequent to bail in, the Bank's shares were sold to the Ministry of Finance of Ukraine for UAH 1. In December 2016, the Ministry of Finance took a decision to increase the Bank's share capital by UAH 116,800 million and by further UAH 38,565 million in June 2017. Refer to Note 20.

**Principal activity.** The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank participates in the State deposit insurance plan (registration #113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). As at 31 December 2017 and 2016 the Deposit Guarantee Fund of Ukraine guarantees repayment of individual deposits up to UAH 200 thousand per individual (31 December 2016: UAH 200 thousand) in case bank liquidation procedure is started.

As at 31 December 2017, the Bank has 30 branches and 2,213 operating outlets in Ukraine and a branch in Cyprus (31 December 2016: 30 branches and 2,213 operating outlets in Ukraine and a branch in Cyprus). Additionally, as at 31 December 2017 the Bank has representative office in Kyiv (Ukraine) (31 December 2016: an associate in Latvia, representative office in Kyiv (Ukraine) and London (the United Kingdom)). In December 2017 the Management and Supervisory Board of the Group approved a plan to sell an associate. The sale is expected to occur within twelve-month period after the reporting date. Accordingly, such investment was classified as asset held for sale as at 31 December 2017.

**Registered address and place of business.** The Group's registered address as at the date of these consolidated financial statements is:

1D, HRUSHEVSKOHO STR.  
01001, KYIV,  
Ukraine.

**Presentation currency.** These consolidated financial statements are presented in million ("UAH million"), unless otherwise stated.

## **2 Operating Environment of the Group**

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

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. 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.

The known and estimable effects of the above factors on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements.

Management 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 Group's financial position and performance in a manner not currently determinable.

## **3 Summary of Significant Accounting Policies**

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, derivatives, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### **Reclassifications**

The following reclassifications have been made to 2016 balances to conform to the 2017 presentation:

<i>In millions of Ukrainian hryvnias</i>	<b>As previously reported</b>	<b>Reclassification</b>	<b>As adjusted</b>
<i>Statement of profit or loss:</i>			
Interest income	33,457	(1,897)	31,560
Losses on the valuation of investment properties and premises	-	(16)	(16)
Administrative and other operating expenses	(10,774)	135	(10,639)
Other income	1,712	1,778	3,490
<i>Statement of cash flows:</i>			
Interest received	24,267	(1,897)	22,370
Other income received	676	1,897	2,573

**Correction of prior years.** As disclosed in Note 4, the loss the Group recognised in its consolidated financial statements for the year 2017 was mainly due to additional allowance for loan impairment of UAH 18,346 million and impairment of repossessed collateral and investment properties of UAH 11,559 million as the Group's assets value was overstated in the prior years financials.

During 2017, the Group continued to address the issues of the assets valuation originated before 19 December 2016. The Group has performed the valuation of certain items of collateral, investment properties and repossessed collateral to address these issues and recognised in the consolidated financial statements for 2017:

- impairment of investment property of UAH 779 million,
- impairment of repossessed collateral of UAH 11,559 million, and
- additional allowance for loan impairment due to decrease in the collateral value of UAH 12,557 million.

### **3 Summary of Significant Accounting Policies (Continued)**

The valuation was performed as at 31 December 2017 and total amount of impairment has been recognised in the consolidated statements for the year ended 31 December 2017 as the Group's management has not obtained sufficient information on the value of the assets either as at 31 December 2016 or at the date the assets were recognised.

In 2016 the Group recognised an impairment charge of UAH 154,536 million in respect of loans and advances to customers, which, owing to insufficient evidence as to the period or periods over which that was incurred, was charged to the consolidated statement of profit or loss and other comprehensive income for the year. Analysis has identified that the Bank was subject to a large number of suspicious transactions over several years involving primarily corporate loans, the impact of which was not recognised in financial statements prior to those for the year ended 31 December 2016, and which the Group's management considers would have had a material impact on the financial statements of prior periods.

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

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

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

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

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

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

**Purchases and sales of non-controlling interests.** The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

### **3 Summary of Significant Accounting Policies (Continued)**

**Disposals of subsidiaries, associates or joint ventures.** When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

**Financial instruments – key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 29.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items of the statement of financial position.

### 3 Summary of Significant Accounting Policies (Continued)

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

**Initial recognition of financial instruments.** Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Gains or losses on initial recognition are recorded in the statement of profit or loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

**Derecognition of financial assets.** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**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. All short term interbank placements, beyond overnight placements, are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the consolidated statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts collected from / credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

**Mandatory cash balances with the Central Banks.** Mandatory cash balances with the Central Banks are carried at amortised cost and are not available to finance the Group'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.

**Due from banks.** Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortised cost.

**Loans and advances to customers.** Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

For the purposes of credit quality analysis the Group categories loans and advances to the corporate clients, SME and private entrepreneurs into large, medium and small borrowers based on the size of the loan exposure:

Large borrowers	Above UAH 100 million
Loans to medium size borrowers	From UAH 1 million to UAH 100 million
Loans to small borrowers	Less than UAH 1 million

### **3 Summary of Significant Accounting Policies (Continued)**

For the purposes of credit quality analysis the Group categories loans and advances to individuals based on the size of the loan exposure:

Loans between UAH 1-100 million  
Loans less than UAH 1 million

When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous conditions, the new asset is initially recognised at its fair value.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss 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 Group 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 Group 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 Group 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 Group. 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.

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 recognised 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.

### 3 Summary of Significant Accounting Policies (Continued)

**Reposessed collateral.** Repossessed collateral represents financial and non-financial assets reposessed by the Group 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 Group measures such assets the lower of their carrying amount and net realisable value. It is the Group's policy to dispose of reposessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy reposessed properties for business use.

**Credit related commitments.** The Group 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 Group 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.

**Investment securities available-for-sale.** This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the period. Dividends on available-for-sale equity instruments are recognised in profit or loss for the period when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the period.

Impairment losses are recognised in profit or loss for the period when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the period. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the period.

**Investment securities held to maturity.** This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

**Goodwill.** Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

**Investment property.** Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

### **3 Summary of Significant Accounting Policies (Continued)**

**Premises, leasehold improvements and equipment.** Premises, leasehold improvements and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and accumulated impairment losses, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the period. The revaluation reserve of premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Management has updated the carrying value of premises carried on a revalued basis as at the reporting date using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Construction in progress is carried at cost less impairment where required. Construction in progress is not depreciated until the asset is available for use.

All other items of premises, leasehold improvements and equipment are stated at cost.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the period to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the period.

**Depreciation.** Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment begins with the date when the asset is available for use and is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	50 years
Computers	2-10 years
Furniture and equipment	4-10 years
Motor vehicles	5-20 years
Other	4-12 years

Leasehold improvements are depreciated over the term of the underlying lease. The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**Intangible assets.** The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives from 2 to 10 years.

### **3 Summary of Significant Accounting Policies (Continued)**

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

**Finance lease receivables.** Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the period.

Impairment losses are recognised in profit or loss for the period when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

**Assets held-for-sale.** The Group classifies assets as assets held-for-sale if their carrying amount is recovered principally through a sale transaction rather than through the operation. For this purpose, assets should be available for immediate sale in their present condition that is typical for such assets offered for sale, it is highly probable that these assets will be sold and management of the Group has an intention and ability to sell them.

If assets are classified as assets held-for-sale, the Group initiates an approved plan to complete the sale at fair value within one year. The Group measures such assets the lower of their carrying amount and fair value less costs to sell. No depreciation is charged on assets held-for-sale.

**Due to banks and other financial institutions.** Amounts due to banks and other financial institutions are recorded when money or other assets are advanced to the Group by counterparty banks or other financing institutions. The non-derivative liability is carried at amortised cost.

**Customer accounts.** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

**Debt securities in issue.** Debt securities in issue include bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

**Subordinated debt.** Subordinated debt represents long-term borrowing agreements that, in case of the Group's default, would be secondary to the Group's primary debt obligations. Subordinated debt is carried at amortised cost.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency swaps and currency options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the period. The Group does not apply hedge accounting.

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

### **3 Summary of Significant Accounting Policies (Continued)**

When the fair value of derivative does not change in response to the changes in the foreign exchange rates and other variables and future cash flows from the embedded derivative become certain the Group ceased to account for an embedded derivative and recognises a receivable within other financial assets. The receivable continues to be measured at fair value through profit or loss until settled.

**Derecognition of financial liabilities.** The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between the Group and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. Terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

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

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

**Uncertain tax positions.** The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**Provisions.** Provisions are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Please refer to Note 4 for significant assumptions used.

### **3 Summary of Significant Accounting Policies (Continued)**

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

**Share capital and share premium.** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Profit or loss arising from transactions with the shareholder is recognised in equity under "Result from transactions with the shareholder".

**Income and expense recognition.** Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss. All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

**Foreign currency translation.** The functional currency of the Group, and the Group's presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH"). Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated into Group's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities into Group's functional currency at period-end official exchange rates of the NBU are recognised in profit or loss for the period (as foreign exchange translation gains less losses). Translation at period-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

**Rates of exchange.** The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2017, UAH	Average 2017, UAH	31 December 2016, UAH	Average 2016, UAH
1 US Dollar (USD)	28.067223	26.594725	27.190858	25.545773
1 Euro (EUR)	33.495424	30.012846	28.422604	28.282835

### **3 Summary of Significant Accounting Policies (Continued)**

**Fiduciary assets.** Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

**Earnings per share.** Earnings per share are determined by dividing the profit or loss attributable to shareholder of the Group by the weighted average number of participating shares outstanding during the reporting period.

**Staff costs and related contributions.** Wages, salaries, contributions to state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

**Segment reporting.** Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

**Presentation of consolidated statement of financial position in order of liquidity.** The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented by category: demand and less than 1 month, from 1 to 3 months, from 3 to 12 months, over 1 year. Refer to Note 26.

### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated 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 consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

**Going concern.** These consolidated financial statements have been prepared on the going concern basis, which assumes that the Group 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 Group recognized net loss of UAH 23,990 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 Group had a gap of UAH 153,374 million between assets and liabilities with a maturity of up to one year, which could lead to the Group's failure to meet its current obligations. Refer to Note 26.

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

During 2018, the Group is going to implement a number of measures aimed at increasing the amount of performing assets, repayment of non-performing assets and enhancing the Group'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. Refer to Note 9.
- 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.

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

The Group's management believes that going concern assumption used in preparation of these consolidated financial statements is appropriate.

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

**Impairment losses on loans and advances.** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in 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 differences between loss estimates and actual loss experience. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans and advances to customers.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase of UAH 666 million or decrease of UAH 1,487 million in loan impairment losses (2016: in an increase of UAH 693 million or decrease of UAH 1,360 million in loan impairment losses), respectively. 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. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase of UAH 1,335 million or decrease of UAH 18,398 million in loan impairment losses (2016: in an increase of UAH 2,733 million or decrease of UAH 16,021 million in loan impairment losses), respectively.

**The fair value of embedded derivatives.** The fair values of derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel. To the extent practical, only observable data are used in models, but where this is not feasible, for example, estimates of volatility for exchange rates, a degree of judgment is required in establishing fair values. If the volatility would be higher by 20% or lower by 5%, the fair value of the embedded derivative assets and the respective consolidated statement of profit or loss and other comprehensive income amount would increase by UAH 1,043 million and decrease by UAH 225 million. Additional details are provided in Note 29.

**Provision associated with Crimean liabilities.** As described in Note 19 the Group has recognised a provision of UAH 1,358 million (31 December 2016: UAH 1,299 million) relating to cessation of its operations in Crimea. Provision was assessed based on the probable future negative outcome of the claims presented against the Group and unfavourable resolution of the disputes the Group is being party to. Furthermore, the Group further assessed other commitments and contingencies in respect of cessation of its operations in Crimea. Refer to Note 28.

#### **5 Adoption of New or Revised Standards and Interpretations**

The following new and revised standards and interpretations were adopted in the reporting year, but they had no impact on these financial statements:

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12 (issued on 8 December 2016; apply to annual periods beginning on or after 1 January 2017).

In addition, in accordance with amendments to IAS 7 "Statement of Cash Flows", issued on 29 January 2016, effective for annual periods beginning on or after 1 January 2017, the Group disclosed information on changes in liabilities, arising from financing activities. Refer to Note 32.

## **6 New Accounting Pronouncements**

### *Standards issued but not yet effective*

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

#### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Group 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 Group is in the process of quantifying the effect of adoption of IFRS 9, however no reliable 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.

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. Derivatives will continue to be measured at FVPL.

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

The Group expects to continue measuring at fair value all financial assets currently held at fair value.

Debt securities, except for debt securities with an embedded option, currently classified as available-for-sale are expected to be measured at FVOCI under IFRS 9 as the Group expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. The vast majority of loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost, however some of the loans will be reclassified as FVPL. Debt securities, except for debt securities with an embedded option, currently classified as held to maturity are expected to be measured at amortised cost. Debt securities with an embedded option currently classified as available-for-sale or held to maturity are expected to be measured at FVPL under IFRS 9.

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

## **6 New Accounting Pronouncements (Continued)**

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

At initial application of IFRS (IFRS) 9, compared with IAS 39, the amount of estimated provisions for expected loan losses did not change significantly for loans that had a significant increase in credit risk since the recognition of financial instruments. That is, an increase in reserves would occur mainly for not impaired loans and loans without a significant increase in credit risk. The amount of effect on provisions for expected credit losses is still under review.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 Leases). As a result, the majority of the Group's income will not be impacted by the adoption of this standard.

The Group currently does not expect a material effect from initial application of IFRS 15.

### *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group does not expect a material effect from application of these amendments.

### *IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2*

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

## **6 New Accounting Pronouncements (Continued)**

### *IFRS 16 Leases*

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

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

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

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

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

### *IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

IFRS 17 is not applicable to the Group.

### *Transfers of Investment Property — Amendments to IAS 40*

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

## **6 New Accounting Pronouncements (Continued)**

*Annual Improvements 2014-2016 Cycle (issued in December 2016)*

These improvements include

*IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

*IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018.

This amendment is not applicable to the Group.

*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. The Group expects no impact of these amendments on the Group's consolidated financial statements.

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

## **7 Cash and Cash Equivalents and Mandatory Reserves**

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash on hand	14,256	12,101
Cash balances with the NBU	4,766	5,644
Cash balances and mandatory reserves with the Central Bank of Cyprus	1,775	1,505
Correspondent accounts and overnight placements with banks		
- Ukraine	11	406
- OECD	4,461	10,483
- Other countries than OECD	31	20
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>25,300</b>	<b>30,159</b>

As at 31 December 2017, the mandatory reserve balances of the Group's branch in Cyprus kept with the Central Bank of Cyprus was UAH 100 million (31 December 2016: UAH 65 million). In addition, as at 31 December 2017 cash balances with the Central Bank of Cyprus of UAH 1,675 million were restricted in similar manner as a mandatory reserve balances and were not available for operating activities.

As the respective liquid assets are not freely available to finance the day-to-day operations of the Group, for the purposes of the consolidated statement of cash flow, UAH 1,775 million of such balances were excluded from cash and cash equivalents (31 December 2016: UAH 1,486 million).

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Total cash and cash equivalents and mandatory reserves	25,300	30,159
Less mandatory reserves and other restricted balances	(1,775)	(1,486)
<b>Cash and cash equivalents for the purposes of the consolidated statement of cash flows</b>	<b>23,525</b>	<b>28,673</b>

As at 31 December 2017, UAH 1,294 million of cash balances with the NBU (31 December 2016: UAH 1,294 million) has been pledged as a collateral for the refinancing loan received from the NBU. Refer to Notes 16 and 28. These funds were available to finance the day-to-day operations of the Group.

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale at 31 December 2017 as follows:

	<b>Cash on hand</b>	<b>Cash balances with the central banks, including mandatory reserves</b>	<b>Correspondent accounts and overnight placements with banks</b>	<b>Total</b>
<i>In millions of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
Cash on hand	14,256	-	-	14,256
Cash balances with the Central Banks	-	6,541	-	6,541
Aa1 to Aa3 rated	-	-	3,881	3,881
A1 to A3 rated	-	-	495	495
Baa3 rated	-	-	20	20
Ba2 to Ba3 rated	-	-	22	22
Caa1 rated	-	-	6	6
Caa3 rated	-	-	3	3
Ca rated	-	-	4	4
Unrated	-	-	72	72
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>14,256</b>	<b>6,541</b>	<b>4,503</b>	<b>25,300</b>

## **7 Cash and Cash Equivalents and Mandatory Reserves (Continued)**

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale at 31 December 2016 as follows:

	Cash on hand	Cash balances with the central banks, including mandatory reserves	Correspondent accounts and overnight placements with banks	Total
<i>In millions of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
Cash on hand	12,101	-	-	12,101
Cash balances with the Central Banks	-	7,149	-	7,149
Aa1 to Aa3 rated	-	-	9,523	9,523
A1 to A3 rated	-	-	732	732
Baa2 to Baa3 rated	-	-	52	52
B3 rated	-	-	19	19
Ca rated	-	-	364	364
Unrated	-	-	219	219
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>12,101</b>	<b>7,149</b>	<b>10,909</b>	<b>30,159</b>

Geographical, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 26.

## **8 Due from Banks**

<i>In millions of Ukrainian hryvnias</i>	31 December 2017	31 December 2016
Deposit certificates of the National Bank of Ukraine	2,853	-
Guarantee deposits with banks	1,613	2,410
Other	50	-
<b>Total due from banks</b>	<b>4,516</b>	<b>2,410</b>

Refer to Note 28 for the information on pledged due from banks balances.

Analysis by credit quality of amounts due from banks outstanding at 31 December 2017 is as follows:

	Deposit certificates of the National Bank of Ukraine	Guarantee deposits with banks	Other	Total
<i>In millions of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
- Deposit certificates of the National Bank of Ukraine	2,853	-	-	2,853
- A1 to A2 rated	-	1,613	-	1,613
- Unrated	-	-	50	50
<b>Total due from banks</b>	<b>2,853</b>	<b>1,613</b>	<b>50</b>	<b>4,516</b>

## **8 Due from Banks (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Guarantee deposits with banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>		
- A1 to A3 rated	2,400	2,400
- Unrated	10	10
<b>Total due from banks</b>	<b>2,410</b>	<b>2,410</b>

The credit ratings are based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale. The primary factor that the Group considers in determining whether a balance is impaired is its overdue status.

Refer to Note 29 for the estimated fair value of each class of amounts due from banks. Geographical, maturity and interest rate analysis of due from banks is disclosed in Note 26.

## **9 Loans and Advances to Customers**

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Loans managed as a separate portfolio	185,575	191,139
Corporate loans	3,479	2,638
Loans to individuals – cards	30,354	19,749
Loans to individuals – mortgage	9,130	9,045
Loans to individuals – consumer	3,144	1,069
Loans to individuals – auto	264	264
Loans to individuals – other	769	1,054
Loans to small and medium enterprises (SME)	3,952	2,494
Finance lease receivables – corporate customers	317	307
Finance lease receivables – individuals	197	164
<b>Total loans and advances to customers, gross</b>	<b>237,181</b>	<b>227,923</b>
Less: Allowance for loan impairment	(198,846)	(184,341)
<b>Total loans and advances to customers</b>	<b>38,335</b>	<b>43,582</b>

As at 31 December 2017 and 2016, Loans managed as a separate portfolio include non-performing loans which were issued before 19 December 2016. Management considers that these loans bear similar credit risk characteristics regardless of the economy sector or commercial activity at the date of issuance of such loans.

As at 31 December 2017, the Group recognised UAH 181,887 million of allowance for impairment against these loans (2016: UAH 169,147 million).

The total amount of charge for impairment of these loans is UAH 17,275 million in 2017. As described in Note 3, UAH 12,557 million from this amount relates to prior years. In addition, in 2017 there was a further deterioration of quality of Loans managed as a separate portfolio, namely: overdue payments over 90 days, decrease in the fair value of collateral, recognition of collateral as invalid by court decisions and others.

As at 31 December 2017, Group had possession of various real estate properties as a settlement of past due loans to customers with a total carrying value of UAH 11,268 million (31 December 2016: UAH 21,836 million). Refer to Note 15.

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2017, comprised UAH 1,328 million (2016: UAH 2,474 million).

**9 Loans and Advances to Customers (Continued)**

The movements in allowances for impairment of loans and advances during 2017 are as follows:

<i>In millions of Ukrainian hryvnias</i>	Loans managed as a separate portfolio		Loans to individuals				SME		Finance lease receivables		Total
	Corporate loans		Cards	Mortgage	Auto	Consumer	Other				
<b>Allowance for loan impairment at 1 January 2017</b>	<b>169,147</b>	<b>1,377</b>	<b>4,048</b>	<b>7,036</b>	<b>251</b>	<b>108</b>	<b>709</b>	<b>1,592</b>	<b>73</b>	<b>184,341</b>	
Provision for impairment during the period	17,275	256	517	62	(15)	22	(79)	291	17	18,346	
Amounts written off during the period as uncollectible	(5,863)	(1)	-	-	-	-	-	-	-	(5,864)	
Recoveries of amounts previously written-off as uncollectible	-	17	221	4	13	-	12	37	-	304	
Currency translation differences	1,328	71	2	263	6	-	4	45	-	1,719	
<b>Allowance for loan impairment at 31 December 2017</b>	<b>181,887</b>	<b>1,720</b>	<b>4,788</b>	<b>7,365</b>	<b>255</b>	<b>130</b>	<b>646</b>	<b>1,965</b>	<b>90</b>	<b>198,846</b>	

The movements in allowances for impairment of loans and advances during 2016 are as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals				SME		Finance lease receivables		Total
		Cards	Mortgage	Auto	Consumer	Other				
<b>Allowance for loan impairment at 1 January 2016</b>	<b>20,849</b>	<b>2,861</b>	<b>3,161</b>	<b>227</b>	<b>71</b>	<b>636</b>	<b>917</b>	<b>72</b>	<b>28,794</b>	
Provision for impairment during the period	147,945	881	3,701	(19)	31	280	524	1,193	154,536	
Amounts written off during the period as uncollectible	(764)	(32)	(140)	(4)	-	-	(9)	-	(949)	
Recoveries of amounts previously written-off as uncollectible	210	340	36	25	15	8	94	-	728	
Currency translation differences	1,001	(1)	396	23	(1)	8	66	-	1,492	
Disposal of subsidiaries	(133)	(1)	(117)	(1)	(8)	-	-	-	(260)	
<b>Allowance for loan impairment at 31 December 2016</b>	<b>169,108</b>	<b>4,048</b>	<b>7,037</b>	<b>251</b>	<b>108</b>	<b>932</b>	<b>1,592</b>	<b>1,265</b>	<b>184,341</b>	

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

<i>In millions of Ukrainian hryvnias</i>	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Loans managed as a separate portfolio	185,575	79	191,139	84
Loans to individuals	43,859	18	31,345	14
Small and medium enterprises (SME)	3,952	2	2,494	1
Commerce, finance and securities trading	1,372	1	1,178	1
Agriculture, agriculture machinery and food industry	1,053	-	601	-
Manufacturing and chemicals	559	-	521	-
Other	811	-	645	-
<b>Total loans and advances to customers, gross</b>	<b>237,181</b>	<b>100</b>	<b>227,923</b>	<b>100</b>

Economic and business sector risk concentration within the customer loan portfolio for borrowers engaged in several activities is determined by the main activity of borrowers.

**9 Loans and Advances to Customers (Continued)**

As at 31 December 2017, the gross aggregate amount of loans to top 10 borrowers of the Group amounted to UAH 54,720 million (31 December 2016: UAH 53,193 million) or 23% of the gross loan portfolio (31 December 2016: 23%). Allowance for loan impairment relating to these borrowers was UAH 54,720 million (31 December 2016: UAH 52,975 million).

Finance lease receivables (gross investment in the leases) and their present values at 31 December 2017 are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Due within 1 year</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
<b>Finance lease payments receivables as at 31 December 2017</b>	<b>3,703</b>	<b>8,385</b>	<b>2,874</b>	<b>14,962</b>
Unearned finance income	(1,422)	(3,421)	(500)	(5,343)
<b>Present value of lease payments receivables as at 31 December 2017</b>	<b>2,281</b>	<b>4,964</b>	<b>2,374</b>	<b>9,619</b>
Allowance for impairment	(1,755)	(3,785)	(1,903)	(7,443)
<b>Total finance lease receivables</b>	<b>526</b>	<b>1,179</b>	<b>471</b>	<b>2,176</b>

Finance lease receivables (gross investment in the leases) and their present values at 31 December 2016 are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Due within 1 year</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
<b>Finance lease payments receivables as at 31 December 2016</b>	<b>2,766</b>	<b>12,199</b>	<b>8,017</b>	<b>22,982</b>
Unearned finance income	(1,644)	(4,501)	(1,377)	(7,522)
<b>Present value of lease payments receivables as at 31 December 2016</b>	<b>1,122</b>	<b>7,698</b>	<b>6,640</b>	<b>15,460</b>
Allowance for impairment	(159)	(597)	(509)	(1,265)
<b>Total finance lease receivables</b>	<b>963</b>	<b>7,101</b>	<b>6,131</b>	<b>14,195</b>

**9 Loans and Advances to Customers (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals				SME	Finance lease	Total	
		Cards	Mortgage	Auto	Consumer	Other	receivables		
<i>Neither past due nor impaired</i>									
- Large borrowers with credit history with the Group over 2 years	573	-	-	-	-	-	-	573	
- Large new borrowers with credit history with the Group less than 2 years	398	-	-	-	-	-	-	398	
- Loans to medium size borrowers	1,063	-	-	-	-	14	167	1,409	
- Loans to small borrowers	115	-	-	-	-	-	1,752	1,897	
- Loans between UAH 1-100 million	-	4	186	-	-	-	-	190	
- Loans less than UAH 1 million	-	24,330	596	6	2,963	99	-	28,119	
<b>Total neither past due nor impaired (gross)</b>	<b>2,149</b>	<b>24,334</b>	<b>782</b>	<b>6</b>	<b>2,963</b>	<b>113</b>	<b>1,919</b>	<b>320</b>	<b>32,586</b>
<i>Past due but not impaired</i>									
- less than 30 days overdue	39	1,020	40	-	48	5	63	48	1,263
- 31 to 90 days overdue	25	340	35	1	15	4	26	16	462
<b>Total past due but not impaired (gross)</b>	<b>64</b>	<b>1,360</b>	<b>75</b>	<b>1</b>	<b>63</b>	<b>9</b>	<b>89</b>	<b>64</b>	<b>1,725</b>
<i>Loans individually determined to be impaired (gross)</i>									
- Not overdue	22,291	-	22	-	-	-	-	-	22,313
- less than 30 days overdue	262	-	-	-	-	-	-	-	262
- 31 to 90 days overdue	9,107	-	-	-	-	-	-	922	10,029
- 91 to 180 days overdue	707	284	17	1	9	6	17	7,938	8,979
- 181 to 360 days overdue	132,687	423	59	-	7	55	56	288	133,575
- over 361 days overdue	12,331	4,070	8,178	256	102	817	1,871	87	27,712
<b>Total individually impaired loans (gross)</b>	<b>177,385</b>	<b>4,777</b>	<b>8,276</b>	<b>257</b>	<b>118</b>	<b>878</b>	<b>1,944</b>	<b>9,235</b>	<b>202,870</b>
Allowance for impairment	(175,907)	(4,904)	(7,366)	(255)	(130)	(876)	(1,965)	(7,443)	(198,846)
<b>Total loans and advances to customers</b>	<b>3,691</b>	<b>25,567</b>	<b>1,767</b>	<b>9</b>	<b>3,014</b>	<b>124</b>	<b>1,987</b>	<b>2,176</b>	<b>38,335</b>

**9 Loans and Advances to Customers (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals				SME	Finance lease	Total
		Cards	Mortgage	Auto	Consumer	Other	receivables	
<i>Neither past due nor impaired</i>								
- Large borrowers with credit history with the Group over 2 years	391	116	-	-	-	-	-	507
- Loans to medium size borrowers	1,082	-	-	-	-	25	144	1,452
- Loans to small borrowers	300	-	-	-	-	-	503	849
- Loans between UAH 1-100 million	-	15	289	-	-	-	-	305
- Loans less than UAH 1 million	-	14,875	661	11	951	374	-	16,962
<b>Total neither past due nor impaired (gross)</b>	<b>1,773</b>	<b>15,006</b>	<b>950</b>	<b>11</b>	<b>951</b>	<b>399</b>	<b>647</b>	<b>20,075</b>
<i>Past due but not impaired</i>								
- less than 30 days overdue	57	632	97	1	10	24	39	905
- 31 to 90 days overdue	51	277	56	-	3	23	17	445
<b>Total past due but not impaired (gross)</b>	<b>108</b>	<b>909</b>	<b>153</b>	<b>1</b>	<b>13</b>	<b>47</b>	<b>56</b>	<b>1,350</b>
<i>Loans individually determined to be impaired (gross)</i>								
- Not overdue	161,960	-	-	-	-	16	-	176,961
- less than 30 days overdue	4,937	-	-	-	-	-	-	4,938
- 31 to 90 days overdue	5,317	-	-	-	-	-	-	5,317
- 91 to 180 days overdue	650	202	71	-	1	36	24	989
- 181 to 360 days overdue	343	276	147	1	2	67	53	892
- over 361 days overdue	3,339	3,485	7,727	251	102	718	1,714	17,401
<b>Total individually impaired loans (gross)</b>	<b>176,546</b>	<b>3,963</b>	<b>7,945</b>	<b>252</b>	<b>105</b>	<b>837</b>	<b>1,791</b>	<b>206,498</b>
Allowance for impairment	(169,108)	(4,048)	(7,037)	(251)	(108)	(932)	(1,592)	(184,341)
<b>Total loans and advances to customers</b>	<b>9,319</b>	<b>15,830</b>	<b>2,011</b>	<b>13</b>	<b>961</b>	<b>351</b>	<b>902</b>	<b>43,582</b>

The Group applied the portfolio assessment methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio allowance for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and decrease in the fair value of related collateral and its realisability.

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments, except for card loans and consumer loans for which impairment is recognised starting from 90 days past due. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

**9 Loans and Advances to Customers (Continued)**

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying cars. Loans to small and medium enterprises are secured by underlying commercial real estate, equipment or commercial cars. Finance lease receivables due from individuals and from corporate customers are secured by cars and real estate. The tables below exclude card loans, consumer and part of loans to small and medium enterprises in amount of UAH 622 million (31 December 2016: UAH 552 million), issue of which did not require any collateral.

The effect of collateral at 31 December 2017:

	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets, net	Expected cash flows from collateral realisation	Carrying value of the assets, net	Expected cash flows from collateral realisation
<i>In millions of Ukrainian hryvnias</i>				
Corporate loans	2,167	4,256	1,524	13
Loans to individuals – mortgage	1,360	6,046	407	169
Loans to individuals – auto	-	1	9	-
Loans to individuals – other	31	186	93	4
Loans to SME	28	327	1,337	6
Finance lease receivables	1,609	2,402	567	238

The effect of collateral at 31 December 2016:

	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets, net	Expected cash flows from collateral realisation	Carrying value of the assets, net	Expected cash flows from collateral realisation
<i>In millions of Ukrainian hryvnias</i>				
Corporate loans	6,234	9,072	3,085	55
Loans to individuals – mortgage	1,461	6,673	550	220
Loans to individuals – auto	-	2	13	-
Loans to individuals – other	41	224	310	15
Loans to SME	87	340	263	62
Finance lease receivables	10,601	11,907	3,594	2,713

Upon initial recognition of loans and advances to customers, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets, market prices, indexes of similar assets.

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

**10 Investment Securities Available-for-Sale**

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Long-term government bonds with an embedded option	47,444	47,046
Long-term government bonds without an embedded option	31,163	17,363
Long-term government bonds denominated in foreign currency	11,747	-
<b>Total investment securities available-for-sale</b>	<b>90,354</b>	<b>64,409</b>

## **10 Investment Securities Available-for-Sale (Continued)**

In December 2017, the Group received government bonds with a total nominal value of UAH 16,065 million (without an embedded option) as a contribution to the share capital of the Bank. Refer to Note 20.

At the date of initial recognition, in 2017, the difference between the nominal and fair values of the government bonds without an embedded option and related derivative was recognized in equity within result of transactions with the shareholder in the amount of UAH 895 million (a loss).

In December 2016, the Group received government bonds with a total nominal value of UAH 107,000 million as a contribution to the share capital of the Bank (Note 20), which included both government bonds with an embedded option of UAH 64,000 million and government bonds without an embedded option of UAH 43,000 million.

At the date of initial recognition, in 2016, the difference between the nominal and fair values of the government bonds with an embedded option and related derivative was recognized in equity within result of transactions with the shareholder in the amount of UAH 9,934 million. Including a gain on recognition of embedded derivative of UAH 27,296 million and a loss on recognition of related host contract (available for sale securities) of UAH 17,362 million. The embedded derivative was accounted separately from the host contract.

As at 31 December 2017, the government bonds with an embedded option earn a coupon at a rate of 6.0% (as at 31 December 2016: 6.0%) and mature in September 2028–October 2031 (as at 31 December 2016: in September 2028–October 2031). The nominal value (principle) of these government bonds is indexed to an increase in exchange rate of UAH to USD between weighted average monthly exchange rate at the interbank market for a month prior the issue and a month before the maturity date. Coupon is not subject to indexation.

As at 31 December 2017, the government bonds without embedded option earn a coupon rate of 9.7-9.8% (as at 31 December 2016: 9.5%) and mature in October 2027–November 2031 (as at 31 December 2016: in March 2030–November 2031).

Long-term government debt bonds denominated in foreign currency were represented by government bonds denominated in USD and EUR.

As at 31 December 2017, the carrying value of government bonds denominated in USD was UAH 9,935 million with interest rate at 3.85% to 5.4% and maturity in April - October 2019.

As at 31 December 2017, the carrying value of government bonds denominated in EUR was UAH 1,680 million with interest at 3.95% and maturity in June 2019.

As at 31 December 2017, government bonds denominated in USD with a carrying value of UAH 1,565 million were pledged as collateral under the short-term refinancing loan from the National Bank of Ukraine. Refer to Note 16.

## **11 Investment Securities Held to Maturity**

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Long-term government bonds without an embedded option	24,538	-
Long-term government bonds with an embedded option	7,604	-
Short-term government bonds	3,227	-
Short-term bonds issued by the State Mortgage Institution	953	-
<b>Total investment securities held to maturity</b>	<b>36,322</b>	<b>-</b>

In February and July 2017, the Group received government bonds with a total nominal value of UAH 32,300 million as a contribution to share capital, which included both government bonds with an embedded option of UAH 9,800 million and government bonds without embedded option of UAH 22,500 million.

As at 31 December 2017, government bonds with embedded option earn a coupon at a rate 6.0% and mature in January 2031–January 2032. The nominal value (principle) of these government bonds is indexed to an increase in exchange rate of UAH to USD between weighted average monthly exchange rate at the intergroup market for a month prior the issue and a month before the maturity date. Coupon is not subject to indexation.

## **11 Investment Securities Held to Maturity (Continued)**

At the date of initial recognition, in 2017, the difference between the nominal and fair values of these bonds was recognised in equity within result of transactions with the shareholder in the amount of UAH 1,397 million, including a gain on recognition of embedded derivative of UAH 3,893 million and a loss on recognition of related host contract (investment securities held to maturity) of UAH 2,496 million. The embedded derivative was accounted separately from the host contract.

As at 31 December 2017, government bonds without embedded option earned a coupon rate of 9.7% and mature in March 2032-December 2032.

At the date of initial recognition, in 2017, the difference between the nominal and fair values of the bonds without an embedded option and related derivative was recognised in equity within result of transactions with the shareholder in the amount of UAH 1,738 million (a gain).

As at 31 December 2017, short term government bonds comprised of discounted bonds maturing in January –February 2018. These bonds were repaid at maturity.

As at 31 December 2017, bonds issued by the State Mortgage Institution earn a coupon at a rate of 9% and mature in November 2018. The State Mortgage Institution is the only second-tier Ukrainian financial institution on the mortgage market dealing with the mortgage loans refinancing.

As at 31 December 2017, long-term government debt securities without an embedded option with a carrying value of UAH 831 million were restricted in use as a collateral pledged under the cash consignment contract with the National Bank of Ukraine. The Group has no right to sell or otherwise dispose such securities without the consent of the National Bank of Ukraine.

## **12 Investment Properties**

*In millions of Ukrainian hryvnias*

**Investment properties**

<b>Carrying amount at 1 January 2016</b>	<b>14</b>
Additions	1,175
Reclassifications to other assets	14
Revaluation	155
<b>Carrying amount at 31 December 2016</b>	<b>1,358</b>
Loss on revaluation	(779)
<b>Carrying amount at 31 December 2017</b>	<b>579</b>

As at 31 December 2017, UAH 436 million of investment property (31 December 2016: UAH 1,189 million) has been pledged as a collateral for the refinancing loan received from the NBU. Refer to Notes 18 and 28.

**13 Premises, Leasehold Improvements, Equipment and Intangible Assets**

<i>In millions of Ukrainian hryvnias</i>	Premises	Leasehold improvements	Computers	Motor vehicles	Furniture, equipment and other	Intangible assets	Total
<b>Carrying amount at 1 January 2016</b>	<b>2,294</b>	<b>79</b>	<b>1,043</b>	<b>703</b>	<b>514</b>	<b>18</b>	<b>4,651</b>
Cost or valuation at 1 January 2016	2,441	156	2,614	806	1,260	64	7,341
Accumulated depreciation and amortisation at 1 January 2016	(147)	(77)	(1,571)	(103)	(746)	(46)	(2,690)
Additions	577	17	322	12	154	413	1,495
Disposals	(15)	(19)	(23)	(4)	(62)	-	(123)
Depreciation and amortisation charge	(98)	(39)	(317)	(47)	(92)	(19)	(612)
Revaluation	351	-	-	-	-	-	351
Impairment charge to profit or loss	(19)	-	(8)	(1)	(4)	-	(32)
Effect of translation to presentation currency	17	-	2	-	(30)	-	(11)
Disposal of subsidiaries	(928)	(1)	(25)	(665)	(36)	-	(1,655)
Reclassification to investment properties	(45)	-	-	-	-	-	(45)
<b>Carrying amount at 31 December 2016</b>	<b>2,134</b>	<b>37</b>	<b>994</b>	<b>(2)</b>	<b>444</b>	<b>412</b>	<b>4,019</b>
Cost or valuation at 31 December 2016	2,373	138	2,819	146	1,273	439	7,188
Accumulated depreciation and amortisation at 31 December 2016	(239)	(101)	(1,825)	(148)	(829)	(27)	(3,169)
Additions	6	10	208	17	151	240	632
Disposals	(24)	-	(4)	(16)	(34)	(295)	(373)
Depreciation and amortisation charge	(52)	(18)	(327)	(17)	(90)	(25)	(529)
Impairment charge to profit or loss	(373)	-	-	-	-	-	(373)
Reclassifications	(83)	-	(52)	54	88	(7)	-
<b>Carrying amount at 31 December 2017</b>	<b>1,608</b>	<b>29</b>	<b>819</b>	<b>36</b>	<b>559</b>	<b>325</b>	<b>3,376</b>
Cost or valuation at 31 December 2017	2,176	247	3,160	228	1,581	377	7,769
Accumulated depreciation and amortisation at 31 December 2017	(568)	(218)	(2,341)	(192)	(1,022)	(52)	(4,393)
<b>Carrying amount at 31 December 2017</b>	<b>1,608</b>	<b>29</b>	<b>819</b>	<b>36</b>	<b>559</b>	<b>325</b>	<b>3,376</b>

As at 31 December 2017, intangible assets included internally generated intangible assets of UAH 61 million (31 December 2016: UAH 340 million).

In November-December 2017 premises were revalued at fair value. The valuation was carried out by external valuation companies that hold a suitable professional qualification and have recent experience in valuation of assets of similar location and category. The basis of valuation of premises was observable market prices.

As at 31 December 2017, included in carrying value of premises was UAH 1,095 million of revaluation surplus (31 December 2016: UAH 1,100 million).

As at 31 December 2017, a cumulative deferred tax liability of UAH 106 million (31 December 2016: UAH 93 million) resulting from valuation adjustments was recorded in other comprehensive income.

At 31 December 2017 the carrying amount of premises would have been UAH 2,163 million (31 December 2016: UAH 1,050 million) had the assets been carried at cost less depreciation.

As at 31 December 2017, the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that were still in use was UAH 408 million (31 December 2016: UAH 251 million).

As at 31 December 2017, premises of UAH 1,161 million (31 December 2016: UAH 1,203 million) were pledged as a collateral under the refinancing loans received from the NBU. Refer to Note 16 and 28.

## 14 Other Assets

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Receivables on conversion of liabilities to equity	8,829	8,878
Inventory	305	239
Prepayments for services	126	2
Precious metals	34	1
Prepaid taxes other than income tax	18	8
Other	1,112	457
Less: Allowance for other assets	(772)	-
<b>Total other assets</b>	<b>9,652</b>	<b>9,585</b>

Receivables originated on conversion of liabilities to equity of UAH 8,829 million (31 December 2016: UAH 8,878 million) were recorded by the Group at the nationalisation and following the changes in the Bank's charter. Management of the Group expects to recover this amount less allowance in full.

## 15 Repossessed Collateral

As at 31 December 2017, Group had in possession various real estate properties with a total carrying value of UAH 11,268 million as a settlement of past due loans to customers (31 December 2016: UAH 21,836 million), including UAH 807 million repossessed in 2017. The Group expects to dispose of these assets in an orderly fashion. The assets were initially recognised at fair value when repossessed.

As at 31 December 2017, the Group recognised an impairment charge of repossessed collateral of UAH 11,329 million.

In addition, repossessed assets of UAH 230 million were written off during 2017 as not recoverable.

## 16 Due to the NBU

Balances due to the NBU are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Long-term borrowings from the NBU	10,886	18,047
Short-term borrowings from the NBU	1,508	-
<b>Total due to the NBU</b>	<b>12,394</b>	<b>18,047</b>

As at 31 December 2017, long-term borrowings from the NBU bore interest rate at 14.25% to 16.00% per annum (2016: at 14.25% to 29.25% per annum). The contractual maturity of the NBU refinancing loan tranches outstanding as at 31 December 2017 varied from May 2016 to February 2017 (31 December 2016: varied from May 2016 to August 2017). Included in the total amount due to the NBU was the past due amount of UAH 10,689 million (31 December 2016: UAH 13,469 million). Refer to Note 26.

In December 2017, the Group received UAH 1,500 million of short-term refinancing loan from the NBU at contractual rate of 16.5% per annum maturing in January 2018. This refinancing loan was repaid at maturity.

**16 Due to the NBU (Continued)**

Assets pledged under the NBU long-term refinancing loans are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash balances with the NBU	7	1,294	1,294
Loans and advances to customers	9	-	15,678
Premises	13	1,161	1,203
Investment properties	12	436	1,189
Reposessed collateral	15	4,204	15,294
<b>Total</b>		<b>7,095</b>	<b>34,658</b>

Refer to Note 29 for the disclosure of the fair value of amounts due to the NBU. Geographical, maturity and interest rate analysis is disclosed in Note 26.

**17 Due to Banks and Other Financial Institutions**

Balances due to banks and other financial institutions are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Correspondent accounts and overnight placements of banks	184	61
Term placements of commercial banks	30	565
Term loans under the credit lines from other financial institutions	19	2,040
Pledge deposits of banks	1	1
<b>Total due to banks and other financial institutions</b>	<b>234</b>	<b>2,667</b>

In 2017, the Group repaid term loans under the credit lines from other financial institutions of UAH 2,021 million at maturity.

Term placements of commercial banks represent placements in USD and EUR with maturities in January 2018 - December 2019 (31 December 2016: placements in USD and EUR with maturities from January 2017 to September 2021).

Refer to Note 29 for the disclosure of the fair value of each class of amounts due to Banks and other financial institutions. Geographical, maturity and interest rate analysis is disclosed in Note 26.

**18 Customer Accounts**

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Individuals</b>		
- Term deposits	119,476	119,519
- Current/demand accounts	52,118	31,684
<b>Legal entities</b>		
- Term deposits	12,797	14,675
- Current/settlement accounts	28,323	15,250
<b>Total customer accounts</b>	<b>212,714</b>	<b>181,128</b>

## 18 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Individuals	171,594	81	151,203	84
Trade	9,952	5	9,133	5
Services	7,517	3	6,620	4
Manufacturing	2,571	1	2,203	1
Agriculture	1,365	1	1,612	1
Transport and communication	1,208	1	2,471	1
Machinery	319	-	308	-
Other	18,188	8	7,578	4
<b>Total customer accounts</b>	<b>212,714</b>	<b>100</b>	<b>181,128</b>	<b>100</b>

At 31 December 2017, included in customer accounts were deposits of UAH 788 million (31 December 2016: UAH 3,864 million) held as collateral for loans and advances to customers with cash covered exposure of UAH 788 million (31 December 2016: UAH 3,864 million), issued by the Group.

Fair value of each class of customer accounts is disclosed in Note 29. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

## 19 Provisions, Other Financial and Non-financial Liabilities

Provisions, other financial and non-financial liabilities comprise the following:

<i>In millions of Ukrainian hryvnias</i>	Note	31 December 2017	31 December 2016
<i>Other financial liabilities</i>			
Payables for contributions to Deposit Guarantee Fund		380	386
Accounts payable		311	83
Provision for credit related commitments		181	247
Settlements		25	447
Other		589	681
<b>Total other financial liabilities</b>		<b>1,486</b>	<b>1,844</b>
<i>Provision and other non-financial liabilities</i>			
Provision associated with cessation of operations in Crimea		1,358	1,299
Provision for legal cases		959	36
Provision for taxes other than on income		-	251
Unused vacation accrual		230	204
Taxes other than income tax		218	262
Accrued salaries and bonuses		114	102
Other		40	12
<b>Total provisions and other non-financial liabilities</b>		<b>2,919</b>	<b>2,166</b>
<b>Total provisions, other financial and non-financial liabilities</b>		<b>4,405</b>	<b>4,010</b>

## **19 Provisions, Other Financial and Non-financial Liabilities (Continued)**

Information on provision recognised by the Group with respect to cessation of its operations in Republic of Crimea and provision for legal cases is disclosed in Note 4 and Note 28.

Refer to Note 29 for the disclosure of the fair value of each class of other financial liabilities. Geographical, maturity and interest rate analyses of other financial liabilities are disclosed in Note 26. Information on related party balances is disclosed in Note 31.

## **20 Share Capital and Other Reserve Funds**

<i>In millions of UAH except for number of shares</i>	<b>Number of outstanding shares, in millions</b>	<b>Nominal amount</b>
<b>As at 1 January 2016</b>	<b>75.92</b>	<b>21,257</b>
New shares issued	105.13	29,438
<b>As at 31 December 2016</b>	<b>181.05</b>	<b>50,695</b>
New shares issued	554.88	155,365
<b>As at 31 December 2017</b>	<b>735.93</b>	<b>206,060</b>

The nominal registered amount of the Bank's issued share capital at 31 December 2017 was UAH 206,060 million (31 December 2016: UAH 50,695 million). The total authorised number of ordinary shares was 735.93 million shares (31 December 2016: 181.05 million shares) with a par value of UAH 280 per share (31 December 2016: UAH 280 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

As described in Note 1, at the nationalisation of the Bank, in 2016, the DGF converted UAH 29,438 million of liabilities to the Bank's share capital, including UAH 10,934 million of amounts due to customers, UAH 10,721 million of Eurobonds issued and UAH 7,783 million of subordinated debt, and approved changes to the charter of the Bank increasing share capital of the Bank to UAH 50,695 million or 181.05 million of shares.

On 18 December 2016, the Cabinet of Ministers of Ukraine adopted a decision on the additional issue of the Bank's 417 million shares with par value of UAH 280 per share and total nominal value of UAH 116,800 million financed by the government bonds.

On 29 December 2016, the Bank received a contribution of UAH 107,000 million to the share capital financed by the government bonds. On that date, UAH 9,934 million of net gain on initial recognition of these bonds was recognised by the Bank in equity, under result on transactions with the shareholder. Refer to Note 10.

In February 2017, the Bank received a remaining contribution to the share capital financed by the government bonds with a nominal value of UAH 9,800 million. On that date UAH 1,397 million of net gain on initial recognition of these bonds was recognised by the Bank in equity, under result on transactions with the shareholder. Refer to Note 11.

In June 2017, the Cabinet of Ministers of Ukraine adopted a decision on the additional issue of the Bank's shares total amount of UAH 38,565 million financed by the government bonds.

On 11 July 2017, the Bank received the first part of a contribution of UAH 22,500 million to the share capital financed by the government bonds. On that date, UAH 1,738 million of net gain on initial recognition of these bonds was recognised by the Bank in equity, under result on transactions with the shareholder. Refer to Note 11.

On 26 December 2017, the Bank received a remaining contribution of UAH 16,065 million to the share capital financed by the government bonds. On that date, UAH 895 million of net loss on initial recognition of these bonds was recognised by the Bank in equity, under result on transactions with the shareholder. Refer to Note 10.

In 2017, contributions of UAH 155,365 million were registered as a share capital of the Bank.

**20 Share Capital and Other Reserve Funds (Continued)**

In June 2015, the Bank received USD denominated subordinated debt of UAH 1,694 million (USD 80 million at the exchange rate at the date of receipt) bearing 11% per annum with contractual maturity in June 2020. On 2 June 2016, this subordinated debt of UAH 2,008 million was transferred to equity following a consent of the creditor and an approval of the National Bank of Ukraine for early repayment of subordinated debt subject to further contribution of the same amount to the equity. This contribution was not registered as at 31 December 2016. On 14 April 2017, the Ministry of Finance of Ukraine as a sole shareholder of the Bank cancelled this decision and approved recognition of this amount within retained earnings (accumulated deficit).

In August 2016, former Shareholders of the Bank approved decisions to transfer UAH 2,583 million from retained earnings to the share capital. This transfer was not registered as at 31 December 2016. On 14 April 2017, the Ministry of Finance of Ukraine as a sole shareholder of the Bank cancelled this decision and approved reversal of this amount to retained earnings (accumulated deficit).

During the reporting period, no financial instruments with a dilutive effect were outstanding. Therefore, basic earnings per share equal diluted earnings per share. Earnings per share amounts are calculated by dividing profit for the period attributable to shareholder of the Group by the weighted average number of ordinary shares outstanding during the year.

<i>In millions of UAH except for number of shares</i>	<b>2017</b>	<b>2016</b>
Loss for the period attributable to shareholder of the Bank	(23,990)	(176,462)
Weighted average number of ordinary shares in issue, in millions	420.85	79.00
Earnings per share, basic and diluted (expressed in UAH per share)	(57.00)	(2,233.70)

General reserves and other funds are established in accordance with the requirements of the Ukrainian legislation, amounted to UAH 6,211 million as at 31 December 2017 (31 December 2016: UAH 1,619 million). The Bank is required to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders of not less than 5% of current period profit until reserve capital will reach 25% of regulatory capital of the Bank.

## **21 Interest Income and Expense**

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
<b>Interest income</b>		
Loans and advances to individuals	11,699	8,923
Investment securities available-for-sale	6,223	51
Loans and advances to legal entities	2,838	21,039
Investment securities held to maturity	1,661	-
Finance lease receivables	1,376	929
Loans to small and medium enterprises (SME)	471	430
Due from banks	216	16
Other	1	172
<b>Total interest income</b>	<b>24,485</b>	<b>31,560</b>
<b>Interest expense</b>		
Term deposits of individuals	12,051	16,110
Due to the NBU	2,751	5,253
Current/settlement accounts	1,793	2,434
Term deposits of legal entities	1,616	2,987
Due to banks and other financial institutions	136	609
Subordinated debt	19	1,138
Debt securities in issue and other borrowed funds	-	923
Other	7	20
<b>Total interest expense</b>	<b>18,373</b>	<b>29,474</b>
<b>Net interest income</b>	<b>6,112</b>	<b>2,086</b>

Information on interest income and expense from transactions with related parties is disclosed in Note 31.

## **22 Fee and Commission Income and Expense**

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
<b>Fee and commission income</b>		
Settlement transactions	8,943	6,732
Cash collection and cash transactions	3,951	3,494
Other	317	466
<b>Total fee and commission income</b>	<b>13,211</b>	<b>10,692</b>
<b>Fee and commission expense</b>		
Cash and settlement transactions	2,972	2,292
Other	45	6
<b>Total fee and commission expense</b>	<b>3,017</b>	<b>2,298</b>
<b>Net fee and commission income</b>	<b>10,194</b>	<b>8,394</b>

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

## **23 Administrative and Other Operating Expenses**

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2017</b>	<b>2016</b>
Staff costs		4,567	3,650
Contributions to Deposit Guarantee Fund		1,471	1,481
Provision for legal cases		923	15
Provision for other financial assets and other assets		814	219
Rent		612	492
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets		529	612
Taxes other than on income		506	342
Maintenance of premises, leasehold improvements and equipment		472	467
Utilities and household expenses		453	420
Mail and telecommunication		428	553
Professional services		417	360
Insurance expenses		362	676
Security		178	143
Transportation		126	116
Provision associated with Crimean liabilities		101	599
Advertising and marketing		61	92
Other		220	402
<b>Total administrative and other operating expenses</b>		<b>12,240</b>	<b>10,639</b>

Included in staff costs was unified social contribution of UAH 730 million (31 December 2016: UAH 640 million). Social contributions are made into the State pension fund which is a defined contribution plan.

Insurance costs associated mainly with insurance collateral provided by the Group received credit security.

The "Other" line includes a decrease in provision for credit related commitments of UAH 66 million (31 December 2016: increase of UAH 191 million).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 31.

## **24 Income Taxes**

Income tax expense recorded in the profit or loss comprises the following:

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
Current tax	10	91
Deferred tax	16	(667)
<b>Income tax expense/(credit) for the year</b>	<b>26</b>	<b>(576)</b>

**24 Income Taxes (Continued)**

In 2017 the income tax rate applicable to the majority of the Group's income was 18% (2016: 18%). Reconciliation between the theoretical and the actual taxation charge is provided below.

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
<b>Loss before tax</b>	<b>(23,964)</b>	<b>(177,220)</b>
Theoretical tax (credit)/expense at statutory rate (2017: 18%; 2016: 18%)	(4,314)	(31,901)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	-	5,198
- Non-deductible expenses	3,516	500
Unrecognised deferred tax assets	6,054	25,627
Adjustments in respect of current income tax of previous year	(5,230)	-
<b>Income tax expense/(credit) for the year</b>	<b>26</b>	<b>(576)</b>

Differences between IFRS and statutory taxation regulations in Ukraine and other countries give rise to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2016</b>	<b>(Charged)/ credited to profit or loss</b>	<b>Credited directly to other comprehensive income</b>	<b>31 December 2017</b>
<b>Tax effect of deductible temporary differences</b>				
Provision and impairments	23,206	5,367	-	28,573
Tax loss carried forward	2,421	687	-	3,108
<b>Gross deferred tax asset</b>	<b>25,627</b>	<b>6,054</b>	<b>-</b>	<b>31,681</b>
Less unrecognised deferred tax assets	(25,627)	(6,054)	-	(31,681)
<b>Recognised deferred tax asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tax effect of taxable temporary differences</b>				
Subordinated debt	(2)	1	-	(1)
Premises, leasehold improvements and equipment	(93)	(17)	4	(106)
<b>Net deferred tax liability</b>	<b>(95)</b>	<b>(16)</b>	<b>4</b>	<b>(107)</b>

**24 Income Taxes (Continued)**

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2015</b>	<b>(Charged)/ credited to profit or loss</b>	<b>Credited directly to other compre- hensive income</b>	<b>31 December 2016</b>
<b>Tax effect of deductible temporary differences</b>				
Provision and impairments	150	23,056	-	23,206
Tax loss carried forward	-	2,421	-	2,421
<b>Gross deferred tax asset</b>	<b>150</b>	<b>25,477</b>	<b>-</b>	<b>25,627</b>
Less unrecognised deferred tax assets	-	(25,627)	-	(25,627)
<b>Recognised deferred tax asset</b>	<b>150</b>	<b>(150)</b>	<b>-</b>	<b>-</b>
<b>Tax effect of taxable temporary differences</b>				
Accrued impairment on other financial assets and other financial liabilities	(16)	16	-	-
Subordinated debt	(34)	32	-	(2)
Investment securities available-for-sale	(316)	4	312	-
Accrued income	(38)	38	-	-
Embedded derivative assets	(625)	625	-	-
Premises, leasehold improvements and equipment	(133)	102	(62)	(93)
<b>Net deferred tax liability</b>	<b>(1,012)</b>	<b>667</b>	<b>250</b>	<b>(95)</b>

In the context of the Group's current structure and Ukrainian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

**25 Segment Analysis**

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Group.

**(a) Description of products and services from which each reportable segment derives its revenue**

The Group is organised on the basis of four main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, derivative products.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.
- Treasury – representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

**25 Segment Analysis (Continued)**

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding taxation and head office overheads. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

***(b) Factors that management used to identify the reportable segments***

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the CODM does not include information of the Group's subsidiaries and head office functional departments. Regular review of these subsidiary groups is delegated to the local management teams. The CODM obtains financial statements of the Banks subsidiaries. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries. Head office functional departments do not earn revenues or earn revenues that are only incidental to the activities of the Group and is not considered by the CODM as an operating segment.

***(c) Measurement of operating segment profit or loss, assets and liabilities***

The CODM reviews financial segment information of the Group prepared based on IFRS before consolidation of subsidiaries. Funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances. For each business segment the CODM reviews interest income adjusted for intersegment result (net interest on transactions with other segments). Income taxes are not allocated to segments.

**25 Segment Analysis (Continued)**

**(d) Information about reportable segment profit or loss, assets and liabilities**

Segment information for the reportable segments for the year ended and at 31 December 2017 is set out below:

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury and Investment banking</b>	<b>Total reportable segments</b>
Cash and cash equivalents and mandatory reserves	14,256	4,499	6,541	25,296
Due from banks	-	-	4,516	4,516
Loans and advances to customers	31,865	6,470	-	38,335
Embedded derivative assets	-	-	34,336	34,336
Investment securities available-for-sale	-	-	90,354	90,354
Investment securities held to maturity	-	-	36,322	36,322
Current income tax prepayment	134	22	28	184
Investments in an associate	-	-	30	30
Investment properties	-	579	-	579
Premises, leasehold improvements, equipment and intangible assets	2,405	405	516	3,326
Other financial assets	441	30	19	490
Other assets	1,078	8,326	248	9,652
Repossession collateral	-	11,268	-	11,268
Assets held for sale	117	-	-	117
<b>Total reportable segment assets</b>	<b>50,296</b>	<b>31,599</b>	<b>172,910</b>	<b>254,805</b>
Due to the NBU	-	-	12,394	12,394
Due to banks and other financial institutions	-	-	234	234
Customer accounts	171,594	41,156	-	212,750
Debt securities in issue	-	-	2	2
Deferred income tax liability	77	13	16	106
Provisions, other financial and non-financial liabilities	3,088	347	962	4,397
Subordinated debt	-	129	-	129
<b>Total reportable segment liabilities</b>	<b>174,759</b>	<b>41,645</b>	<b>13,608</b>	<b>230,012</b>

**25 Segment Analysis (Continued)**

	Retail banking	Corporate banking	Treasury and Investment banking	Total reportable segments
<i>In millions of Ukrainian hryvnias</i>				
<b>2017</b>				
<b>Total revenues comprise:</b>				
- Interest income	12,020	4,365	8,100	24,485
- Fee and commission income	8,089	2,951	2,171	13,211
- Other operating income	1,415	110	5	1,530
<b>Revenues from/(expenses on) other segments</b>	<b>59,408</b>	<b>(54,961)</b>	<b>(4,447)</b>	<b>-</b>
<b>Total revenues</b>	<b>80,932</b>	<b>(47,535)</b>	<b>5,829</b>	<b>39,226</b>
Interest expense	(13,397)	(2,089)	(2,888)	(18,374)
Charge for impairment of loans and advances to customers	(917)	(17,429)	-	(18,346)
Fee and commission expense	(2,285)	(381)	(351)	(3,017)
Gains less losses from embedded derivatives	-	-	3,491	3,491
Gains less losses/(Losses less gains) from trading in foreign currencies and swaps	103	995	(14)	1,084
Foreign exchange translation (losses less gains)/gains less losses	(4,068)	508	1,059	(2,501)
Impairment of investments in an associate	-	-	(286)	(286)
Losses on the valuation of investment properties and premises	-	-	(1,112)	(1,112)
Intangible assets write off	-	(292)	-	(292)
Impairment of repossessed collateral	-	(11,559)	-	(11,559)
Administrative and other operating expenses	(8,775)	(1,284)	(2,135)	(12,194)
Other losses	-	-	(15)	(15)
<b>Segment result</b>	<b>51,593</b>	<b>(79,066)</b>	<b>3,578</b>	<b>(23,895)</b>

**25 Segment Analysis (Continued)**

Segment information for the reportable segments for the year ended and at 31 December 2016 is set out below:

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Treasury</b>	<b>Total reportable segments</b>
Cash and cash equivalents and mandatory reserves	12,101	10,909	-	7,149	30,159
Due from banks	-	-	-	2,410	2,410
Loans and advances to customers	19,700	23,608	-	275	43,583
Embedded derivative assets	-	-	27,044	-	27,044
Investment securities available-for-sale	-	-	64,409	-	64,409
Current income tax prepayment	125	26	1	29	181
Investments in subsidiaries and an associate	-	-	433	-	433
Investment properties	-	1,358	-	-	1,358
Premises, leasehold improvements, equipment and intangible assets	2,734	571	16	635	3,956
Other financial assets	168	-	5	56	229
Other assets	1,154	8,262	3	166	9,585
Repossession collateral	-	21,836	-	-	21,836
<b>Total reportable segment assets</b>	<b>35,982</b>	<b>66,570</b>	<b>91,911</b>	<b>10,720</b>	<b>205,183</b>
Due to the NBU	-	-	-	18,047	18,047
Due to banks and other financial institutions	-	-	-	2,667	2,667
Customer accounts	151,203	29,930	-	-	181,133
Debt securities in issue	-	-	-	2	2
Deferred income tax liability	11	-	-	83	94
Provisions, other financial and non-financial liabilities	2,933	477	3	587	4,000
Subordinated debt	-	122	-	-	122
<b>Total reportable segment liabilities</b>	<b>154,147</b>	<b>30,529</b>	<b>3</b>	<b>21,386</b>	<b>206,065</b>

**25 Segment Analysis (Continued)**

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Treasury</b>	<b>Total reportable segments</b>
<b>2016</b>					
<b>Total revenues comprise:</b>					
- Interest income	9,023	22,169	51	115	31,358
- Fee and commission income	5,660	3,030	22	1,653	10,365
- Other operating income	1,997	1,200	12	43	3,252
<b>Revenues from/(expenses on) other segments</b>	<b>18,972</b>	<b>(28,374)</b>	<b>96</b>	<b>9,306</b>	<b>-</b>
<b>Total revenues</b>	<b>35,652</b>	<b>(1,975)</b>	<b>181</b>	<b>11,117</b>	<b>44,975</b>
Interest expense	(17,206)	(4,524)	(94)	(7,540)	(29,364)
Charge for impairment of loans and advances to customers	(5,622)	(148,995)	-	-	(154,617)
Fee and commission expense	(1,656)	(342)	-	(207)	(2,205)
Gains from investment securities available-for-sale	-	-	1,981	-	1,981
Losses less gains from embedded derivatives	-	(23,696)	(259)	-	(23,955)
Gains less losses from trading in foreign currencies and swaps	330	899	-	(1,435)	(206)
Foreign exchange translation (losses less gains)/gains less losses	(10,097)	6,673	(70)	(772)	(4,266)
Net gains from disposal or discontinuance of investments in subsidiaries	-	-	-	630	630
Impairment charge of premises, intangible assets and investment properties	-	(16)	-	-	(16)
Administrative and other operating expenses	1,939	(9,926)	107	(1,891)	(9,771)
<b>Segment result</b>	<b>3,340</b>	<b>(181,902)</b>	<b>1,846</b>	<b>(98)</b>	<b>(176,814)</b>

**Reconciliation of reportable segment revenues, profit or loss, assets and liabilities**

Total consolidated revenues comprise interest income, fee and commission income and other operating income for the year ended 31 December 2017:

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
<b>Total revenues for reportable segments</b>	<b>39,226</b>	<b>44,975</b>
(b) Consolidation adjustments	77	767
<b>Total consolidated revenues</b>	<b>39,303</b>	<b>45,742</b>

Reconciliation of reportable profit or loss for the year ended 31 December 2017:

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
<b>Total reportable segment result</b>	<b>(23,895)</b>	<b>(176,814)</b>
(b) Consolidation adjustments	(69)	(406)
<b>Profit before tax</b>	<b>(23,964)</b>	<b>(177,220)</b>

**25 Segment Analysis (Continued)**

Reconciliation of reportable assets for the year ended 31 December 2017:

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
<b>Total reportable segment assets</b>	<b>254,805</b>	<b>205,183</b>
(b) Consolidation adjustments	65	176
<b>Total consolidated assets</b>	<b>254,870</b>	<b>205,359</b>

Reconciliation of reportable liabilities for the year ended 31 December 2017:

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
<b>Total reportable segment liabilities</b>	<b>230,012</b>	<b>206,065</b>
(b) Consolidation adjustments	(24)	7
<b>Total consolidated liabilities</b>	<b>229,988</b>	<b>206,072</b>

Reconciliation of material items of income for the year ended 31 December 2017 is as follows:

	<b>Interest income</b>	<b>Fee and commission income</b>	<b>Gains less losses from embedded and financial derivatives</b>
<i>In millions of Ukrainian hryvnias</i>			
<b>Total amount for all reportable segment</b>	<b>24,485</b>	<b>13,211</b>	<b>3,491</b>
(b) Consolidation adjustments	-	-	-
<b>As reported under IFRS</b>	<b>24,485</b>	<b>13,211</b>	<b>3,491</b>

Reconciliation of material items of expense for the year ended 31 December 2017 is as follows:

	<b>Interest expense</b>	<b>Charge for impairment of loans and advances to customers</b>	<b>Administrative and other operating expenses</b>
<i>In millions of Ukrainian hryvnias</i>			
<b>Total amount for all reportable segment</b>	<b>(18,374)</b>	<b>(18,346)</b>	<b>(23,753)</b>
(b) Consolidation adjustments	1	-	(46)
<b>As reported under IFRS</b>	<b>(18,373)</b>	<b>(18,346)</b>	<b>(23,799)</b>

The "Administrative and other operating expenses" line includes administrative and other operating expenses and impairment of repossessed collateral.

**25 Segment Analysis (Continued)**

Reconciliation of material items of income for the year ended 31 December 2016 is as follows:

	Interest income	Fee and commission income	Gains less losses from embedded and financial derivatives
<i>In millions of Ukrainian hryvnias</i>			
<b>Total amount for all reportable segment</b>	<b>31,358</b>	<b>10,365</b>	<b>(23,955)</b>
(b) Consolidation adjustments	202	327	-
<b>As reported under IFRS</b>	<b>31,560</b>	<b>10,692</b>	<b>(23,955)</b>

Reconciliation of material items of expense for the year ended 31 December 2016 is as follows:

	Interest expense	Charge for impairment of loans and advances to customers	Administrative and other operating expenses
<i>In millions of Ukrainian hryvnias</i>			
<b>Total amount for all reportable segment</b>	<b>(29,364)</b>	<b>(154,617)</b>	<b>(9,771)</b>
(b) Consolidation adjustments	(110)	81	(868)
<b>As reported under IFRS</b>	<b>(29,474)</b>	<b>(154,536)</b>	<b>(10,639)</b>

Reconciliation of material assets as at 31 December 2017 is as follows:

	Cash and cash equivalents and mandatory reserves	Due from banks	Loans and advances to customers	Embedded derivative assets	Other financial assets
<i>In millions of Ukrainian hryvnias</i>					
<b>Total amount for all reportable segment</b>	<b>25,296</b>	<b>4,516</b>	<b>38,335</b>	<b>34,336</b>	<b>490</b>
(b) Consolidation adjustments	4	-	-	-	41
<b>As reported under IFRS</b>	<b>25,300</b>	<b>4,516</b>	<b>38,335</b>	<b>34,336</b>	<b>531</b>

Reconciliation of material liabilities as at 31 December 2017 is as follows:

	Due to banks and other financial institutions	Customer accounts	Debt securities in issue	Provisions, other financial and non-financial liabilities	Subordinated debt
<i>In millions of Ukrainian hryvnias</i>					
<b>Total amount for all reportable segment</b>	<b>234</b>	<b>212,750</b>	<b>2</b>	<b>4,397</b>	<b>129</b>
(b) Consolidation adjustments	-	(36)	-	8	-
<b>As reported under IFRS</b>	<b>234</b>	<b>212,714</b>	<b>2</b>	<b>4,405</b>	<b>129</b>

Reconciliation of material assets as at 31 December 2016 is as follows:

	Cash and cash equivalents and mandatory reserves	Due from banks	Loans and advances to customers	Embedded derivative assets	Other financial assets
<i>In millions of Ukrainian hryvnias</i>					
<b>Total amount for all reportable segment</b>	<b>30,159</b>	<b>2,410</b>	<b>43,583</b>	<b>27,044</b>	<b>229</b>
(b) Consolidation adjustments	-	-	(1)	-	40
<b>As reported under IFRS</b>	<b>30,159</b>	<b>2,410</b>	<b>43,582</b>	<b>27,044</b>	<b>269</b>

## 25 Segment Analysis (Continued)

Reconciliation of material liabilities at 31 December 2016 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Due to banks and other financial institutions	Customer accounts	Debt securities in issue	Provisions, other financial and non- financial liabilities	Subordinated debt
<b>Total amount for all reportable segment</b>	<b>2,667</b>	<b>181,133</b>	<b>2</b>	<b>4,000</b>	<b>122</b>
(b) Consolidation adjustments	-	(5)	-	10	-
<b>As reported under IFRS</b>	<b>2,667</b>	<b>181,128</b>	<b>2</b>	<b>4,010</b>	<b>122</b>

The reconciling items are attributable to the following:

(b) – Segment reporting is prepared before consolidation of subsidiaries.

The Group did not analyse the capital expenditure, current and deferred income tax in segment reporting.

### **(e) Analysis of revenues by products and services**

The Group's revenues are analysed by products and services in Notes 21 (interest income), Note 22 (fee and commission income).

### **(f) Geographical information**

Revenues for each individual country for which the revenues are material are reported separately as follows for the year ended 31 December 2017:

<i>In millions of Ukrainian hryvnias</i>	<b>2017</b>	<b>2016</b>
Ukraine	38,666	44,194
Other	637	1,548
<b>Total consolidated revenues</b>	<b>39,303</b>	<b>45,742</b>

Revenues comprise interest income, fee and commission income and other operating income.

### **(g) Major customers**

The Group does not have customers which generate revenues exceeding 10% of the total revenue of the Group.

## 26 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price 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.

### **Risk Management Bodies**

In order to effectively manage risks in the Group, the Credit Committee, the Assets and Liabilities Management Committee have been established and are operating. Other bodies responsible for monitoring and risk management within the Group include the Treasury, Risk Management Division, Internal Control and Fraud-Management Division, the Finance and Ratings Division. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Division and Financial Monitoring Department. In addition, the Compliance department monitors compliance of risk management process and function with regulatory and other legislative requirements.

**26 Financial Risk Management (Continued)**

***Credit Committee***

The Credit Committee makes decisions on active operations of the Group within the authority limits established by the Management Board of the Group, approves limits for counterparty banks, securities purchases, monitors the repayment of loans and quality of the Group's loan portfolio, oversees significant loan projects. The Credit Committee also coordinates loan products, provides for the development and approval of methodologies, instructions, procedures, forms, models and other regulatory or procedural documents for identifying, measuring, monitoring, controlling, reporting and mitigating credit risks at all organizational levels. The Credit Committee meets at least once a month.

***Assets and Liabilities Management Committee***

The main purpose of the Assets and Liabilities Management Committee's creation and operation is to ensure the efficiency and continuity of the Group's assets and liabilities management process, monitor liquidity risk, currency, interest and price risk (for liability transactions) and take appropriate measures aimed at minimizing these risks and maximizing the financial result of the Group. The Assets and Liabilities Management Committee meets once a week.

***Treasury***

The Treasury is responsible for day-to-day asset and liability management. The Treasury performs an analysis and controls the Group's liquidity position and interest rate risk exposure based on instructions and guidelines from the Finance and Ratings 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 Ratings Division***

Finance and Ratings Division develops and updates internal regulations on assessment, monitoring and control of liquidity risk and interest rate risk, as well as the generation of managerial reports on these risks. The Finance and Ratings Division daily performs the calculation and control of compliance by the Group with the prudential liquidity ratios established by the NBU, as well as internal indicators of liquidity risk, in accordance with the Policy of liquidity risk management.

***Risk-Management Division***

The Risk Management Division develops and maintains in its current state the principles, policies, methods and tools for identifying, assessing, measuring and controlling credit risk, primarily in the process of lending, formulates proposals on mitigation measures, monitors the level of credit risk, detects payments delays early and provides for recovery of unpaid debts, conducts on a regular basis stress testings for credit risk.

***Fraud-Management Division***

The main function of the Fraud-Management Division is the creation of a system for prevention and detection of unauthorized and fraudulent actions of staff and third parties. The scope of responsibilities of the "Fraud-Management" direction includes: countering intra-corporate and external fraud, detecting suspicious transactions in bank processes and technologies, managing operational risks.

**Credit risk.** The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument 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 Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's credit policy defines the general principles for the implementation of the credit process and credit risk management, establishes a general approach to the acceptance of credit risks, principles and standards of credit activity, defines the authorities and responsibilities of the Group's governing bodies, employees and structural subdivisions at each stage of the credit process, provides integrated approach to credit risk management.

Credit risk management is carried out on the basis of a regular analysis of the ability of borrowers and potential borrowers to fulfill their loan principal repayment and interest repayment obligations, regular analysis of the quality of the loan portfolio in order to monitor the level of credit risk by changing, if necessary, lending limits, by obtaining collateral, its inspections and reassessment with the established frequency, by obtaining corporate and personal guarantees and by other means of the credit risk mitigation.

Basic information on the level of credit risk is systematically updated and provided for analysis in the form of reports on the status of the loan portfolio.

## **26 Financial Risk Management (Continued)**

The Credit Committee approves the classification of credit operations by risk groups, reviews, corrects and approves the assessment of credit risk and the estimated amount of the allowance and provisions (loans and advances to customers, credit related commitments, securities and other).

### *Loan Approval Procedure*

The lending policy and credit approval procedures of the Group are based on clear internal instructions and in accordance with the regulations of the NBU. In addition, for valuation of the collaterals, the Group cooperates with independent accredited valuation companies. In some cases, the assessment is carried out by internal specialists of the Group with the appropriate qualification.

The Group has the following system of authority to make decisions on lending transactions and to limit the risks:

- individual authority limits : these are limits delegated to the Risk Management Division for transactions of retail and small and medium clients within standard product terms;
- dual authority limits ("dual signature" authorities): these are limits for transactions delegated to the Risk Management Division managers together with the Heads of the relevant Business Divisions within the standard product terms. All votes must be in favour of transaction execution to authorise it;
- group authority limits : these are limits delegated by the Management Board of the Group to the Credit Committee, subject to the conclusions, comments or recommendations of the Legal Department, the Security Division, and the conclusion of the Risk Management Division, which include comments on specific risks and mitigation actions associated with potential lending transaction for approval negative. The decision is taken by the majority of votes of the members of the Credit Committee.

### *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 Group.

### *Loan Monitoring*

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

The Group monitors on each loan on an ongoing basis by (i) reviewing 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 Group.

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 carried out by independent companies – appraisal companies accredited by the Group or qualified internal appraisers. The frequency of such assessments depends on the type of collateral.

Management maintains credit history records of a significant number of Ukrainian retail customers, which constitutes the largest credit history bureau in Ukraine, allowing the Group to mitigate credit risks by targeting borrowers, who have a good credit history.

## **26 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 Group 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 to demand repayment and to verify collateral existence. Credit inspectors remind the borrower of his loan repayment obligations several days before the due date. 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, issues a internal 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 Group and classified as "problem loans", excluding loans where the total debt amounts of 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 inspects the collateral, and as a result may enforce collateral security measures. In certain enforcement cases the Group 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 sale of collateral at auction, restrictions of the borrower's account(s) at other banks or the repossession of property formorgage or car loans. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is under financial difficulties, and has ability and intention to repay its debt, the Group usually negotiates debt restructuring under the terms of additional collateral, personal guarantees by shareholders and by management, increased interest rates and revised repayment schedules

The Group may impose other legal actions, including legal enforcement of debt repayment and bankruptcy proceedings. In the event of any criminal borrower's actions, irrespective of the borrower's readiness to repay its debt, the Group notifies relevant government authorities. The Credit Committee meets monthly to review the status of non-performing loans.

The Group maintains a policy not to refinance problem loans without convincing evidence they are recoverable and reliably secured.

### *Related Party Lending*

The Group 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 Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, 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 Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. In respect of currency risk, Management sets limits on the level of exposure by currency and in total for both overnight and day-to-day positions, which are monitored daily.

The Group's policy in respect of open currency positions is restricted under Ukrainian law to certain thresholds and strictly monitored by the NBU on a daily basis. In order to hedge its currency risk, the Group enters into arrangements with other banks pursuant to which the Group places term deposits with these banks and accepts term deposits for the same term from the same counterparties in a different currency. The Group's foreign currency position is hedged with a portfolio of domestic government debt securities indexed to USD. Refer to Notes 10 and 11.

**26 Financial Risk Management (Continued)**

The table below summarises the Group's exposure to currency risk at the end of the reporting period and position in Ukrainian hryvnias:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017				31 December 2016			
	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off-balance sheet position	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off-balance sheet position
Ukrainian hryvnias	202,195	130,939	-	71,256	144,013	100,709	-	43,304
US Dollars	19,824	78,288	67	(58,397)	16,680	84,902	-	(68,222)
Euros	7,063	17,422	(67)	(10,426)	6,550	17,933	-	(11,383)
Other	609	309	-	300	630	266	-	364
<b>Total</b>	<b>229,691</b>	<b>226,958</b>	<b>-</b>	<b>2,733</b>	<b>167,873</b>	<b>203,810</b>	<b>-</b>	<b>(35,937)</b>

Fair value of embedded derivatives was included in the table above together with host instruments into UAH denominated financial assets.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017		31 December 2016	
	Impact on profit or loss (before tax)	Impact on equity	Impact on profit or loss (before tax)	Impact on equity
US Dollar strengthening by 20% (2016: strengthening by 10%)	(11,106)	(11,106)	(6,588)	(6,588)
US Dollar weakening by 5% (2016: weakening by 5%)	2,777	2,777	3,294	3,294
Euro strengthening by 10% (2016: strengthening by 10%)	(1,043)	(1,043)	(1,138)	(1,138)
Euro weakening by 5% (2016: weakening by 5%)	521	521	569	569
Other strengthening by 5% (2016: strengthening by 5%)	15	15	18	18
Other weakening by 5% (2016: weakening by 5%)	(15)	(15)	(18)	(18)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. Sensitivity of US Dollar exchange rate in the above table takes into account effect of recognition of fair value of derivative embedded in investment securities available-for-sale and in investment securities held to maturity.

**Interest rate risk.** The Group is exposed to the risk of financial losses due to changes in interest rates of assets and liabilities, mainly as a result of loans with a fixed interest rate in amounts and for a term other than the amounts and terms of fixed interest liabilities.

The interest margin may increase as a result of such changes, but may also decrease and cause losses. The Group is aware of the risk that may result in a sharp change in interest rates for its profitability. The Group sets limits on an acceptable level of interest rate mismatch and controls compliance.

**26 Financial Risk Management (Continued)**

The collegial bodies that ensure the tactical implementation of the Group's interest rate policy are the Credit Committee - in terms of lending rates and the Assets and Liabilities Committee - in terms of interest rates on borrowings. The responsibilities of the Credit Committee and the Assets and Liabilities Management Committee in this area include an overview of the financial market price policy, credit and deposit interest rates according to the programs of the competitive banks, consideration of the proposals of the Business and the directions of the Head Office to improve the efficiency of the Group's credit and deposit policy, the assessment the cost of liabilities and profitability of assets, policies of interest margins, approval of interest rates. Changes in interest rates can be made in the event of significant fluctuations in market rates, changes in the discount rate of the regulator, depending on the state of the Group's resource position.

Methodological support for the interest rate risk management of the Group is provided by the Finance and Ratings Division, which develops internal risk documents for risk management. The Finance and Ratings Division controls the interest rate risk based on the GAP analysis, in which assets and liabilities sensitive to interest rate changes are grouped into a time series.

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.

The Group conducts stress testing to determine under which conditions the Group is exposed to possible losses, as well as to determine the amount of these losses and the impact on the Group's interest income. Stress testing is performed by sensitivity analysis, based on the assumption that rates increase or decrease for a certain number of percentage points.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earliest of contractual interest repricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-monetary	Total
<i>In millions of Ukrainian hryvnias</i>						
<b>31 December 2017</b>						
Total financial assets	31,855	6,463	9,981	181,392	3	229,694
Total financial liabilities	127,121	36,299	60,421	3,117	1	226,959
<b>Net interest sensitivity gap at 31 December 2017</b>	<b>(95,266)</b>	<b>(29,836)</b>	<b>(50,440)</b>	<b>178,275</b>	<b>2</b>	<b>2,735</b>
<b>31 December 2016</b>						
Total financial assets	33,706	2,630	6,610	124,927	-	167,873
Total financial liabilities	91,096	32,746	77,299	2,669	-	203,810
<b>Net interest sensitivity gap at 31 December 2016</b>	<b>(57,390)</b>	<b>(30,116)</b>	<b>(70,689)</b>	<b>122,258</b>	<b>-</b>	<b>(35,937)</b>

## 26 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

<i>In % p.a.</i>	31 December 2017				31 December 2016			
	USD	UAH	Euro	Other	USD	UAH	Euro	Other
<b>Assets</b>								
Due from banks	-	16	-	-	-	-	-	-
Loans and advances to legal entities	6	11	3	5	4	11	3	5
Loans and advances to individuals	15	43	16	43	15	41	15	-
Investment securities available-for-sale	5	10	2	-	-	10	-	-
Investment securities held to maturity	-	10	-	-	-	-	-	-
<b>Liabilities</b>								
Due to the NBU	-	16	-	-	-	21	-	-
Correspondent accounts and overnight deposits of banks	1	5	-	-	10	5	6	-
Long-term loans under the credit lines from financial institutions	-	-	-	-	10	-	-	-
Term placements of banks	9	-	2	-	3	-	2	-
- current accounts of customers	-	3	-	-	-	5	-	-
- term deposits of legal entities	1	12	4	-	11	18	5	-
- term deposits of individuals	4	15	3	4	8	18	7	4
Debt securities in issue	-	15	-	-	-	15	-	-
Subordinated debt	-	9	-	-	-	9	-	-

The sign “-” in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current period profit and equity at the end of the reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

**26 Financial Risk Management (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	19,002	4,461	1,837	25,300
Due from banks	2,903	1,613	-	4,516
Loans and advances to customers	37,199	4	1,132	38,335
Embedded derivative assets	34,336	-	-	34,336
Investment securities available-for-sale	90,353	1	-	90,354
Investment securities held to maturity	36,322	-	-	36,322
Other financial assets	357	171	3	531
<b>Total financial assets</b>	<b>220,472</b>	<b>6,250</b>	<b>2,972</b>	<b>229,694</b>
<b>Non-financial assets</b>	<b>11,320</b>	<b>117</b>	<b>13,739</b>	<b>25,176</b>
<b>Total assets</b>	<b>231,792</b>	<b>6,367</b>	<b>16,711</b>	<b>254,870</b>
<b>Liabilities</b>				
Due to the NBU	12,394	-	-	12,394
Due to banks and other financial institutions	52	180	2	234
Customer accounts	202,452	8,063	2,199	212,714
Debt securities in issue	2	-	-	2
Other financial liabilities	817	501	168	1,486
Subordinated debt	129	-	-	129
<b>Total financial liabilities</b>	<b>215,846</b>	<b>8,744</b>	<b>2,369</b>	<b>226,959</b>
<b>Non-financial liabilities</b>	<b>3,023</b>	<b>-</b>	<b>6</b>	<b>3,029</b>
<b>Total liabilities</b>	<b>218,869</b>	<b>8,744</b>	<b>2,375</b>	<b>229,988</b>
<b>Net position</b>	<b>12,923</b>	<b>(2,377)</b>	<b>14,336</b>	<b>24,882</b>
<b>Credit related commitments (Note 28)</b>	<b>906</b>	<b>34</b>	<b>54</b>	<b>994</b>

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand, precious metals and premises and equipment have been allocated based on the country in which they are physically held.

**26 Financial Risk Management (Continued)**

The geographical concentration of the Group's assets and liabilities at 31 December 2016 is set out below:

<i>In millions of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	18,078	10,484	1,597	30,159
Due from banks	-	2,410	-	2,410
Loans and advances to customers	39,351	280	3,951	43,582
Embedded derivative assets	27,044	-	-	27,044
Investment securities available-for-sale	64,409	-	-	64,409
Other financial assets	57	147	65	269
<b>Total financial assets</b>	<b>148,939</b>	<b>13,321</b>	<b>5,613</b>	<b>167,873</b>
<b>Non-financial assets</b>	<b>23,116</b>	<b>562</b>	<b>13,808</b>	<b>37,486</b>
<b>Total assets</b>	<b>172,055</b>	<b>13,883</b>	<b>19,421</b>	<b>205,359</b>
<b>Liabilities</b>				
Due to the NBU	18,047	-	-	18,047
Due to banks and other financial institutions	44	2,605	18	2,667
Customer accounts	168,048	9,666	3,414	181,128
Debt securities in issue	2	-	-	2
Other financial liabilities	1,048	692	104	1,844
Subordinated debt	122	-	-	122
<b>Total financial liabilities</b>	<b>187,311</b>	<b>12,963</b>	<b>3,536</b>	<b>203,810</b>
<b>Non-financial liabilities</b>	<b>2,258</b>	<b>-</b>	<b>4</b>	<b>2,262</b>
<b>Total liabilities</b>	<b>189,569</b>	<b>12,963</b>	<b>3,540</b>	<b>206,072</b>
<b>Net position</b>	<b>(17,514)</b>	<b>920</b>	<b>15,881</b>	<b>(713)</b>
<b>Credit related commitments (Note 28)</b>	<b>1,484</b>	<b>105</b>	<b>62</b>	<b>1,651</b>

**Liquidity risk.** Liquidity risk is the probability of a loss or additional loss or a loss of revenue due to the Group's inability to finance the growth of its assets and fulfill its liabilities in due time.

The Group's liquidity risk management policy is based on the principles of priority of liquidity over profitability, maintenance of liquidity ratios at a level above the regulatory required level in order to create a reserve of liquidity due to the instability of financial markets. The purpose of the Group's liquidity management is to ensure availability of sufficient highly liquid assets necessary for timely fulfillment of obligations, access to various sources of funding and existence of emergency financing plans. The Group strives to maintain a stable funding base, to develop sources of resources, primarily at the expense of legal entities and individuals.

To monitor the Group's liquidity status, the Department of Accounting and Monitoring of prudential ratios (Finance and Ratings Division) submits daily liquidity calculations to the NBU, generates reports on liquidity gaps using the GAP analysis method: comparing amounts of assets and liabilities by maturity. The liquidity gaps are calculated by major currencies and in hryvnia. Liquidity breakdown reports are used by the Treasury to address matters related to liquidity management.

Risk monitoring is implemented through compliance with regulatory required prudential ratios (instant, current, short-term liquidity), compliance with internal limits on liquidity gaps, level of liquid assets, concentration of sources of funding.

## 26 Financial Risk Management (Continued)

The Group calculates regulatory liquidity ratios set by the National Bank of Ukraine on a daily basis. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 32,47% at 31 December 2017 (31 December 2016: 63,52%) with the minimum required limit of 30% for saving banks and 20% for other banks (31 December 2016: 30% for savings banks and 20% for other banks).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 155,54% at 31 December 2017 (31 December 2016: 147,43%) with the minimum required limit of 40% (31 December 2016: 40%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 99,76% at 31 December 2017 (31 December 2016: 73,83%) with the minimum required limit of 60% (31 December 2016: 60%).

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

The Treasury manages current liquidity level, analyses payment schedules, manages the liquidity position in real-time through the placement and attraction of short-term resources at the interbank market, the purchase or sale of securities, or through other available financial transactions. The Treasury also analyzes the possible outcomes of significant cash outflows for major clients in order to minimize the probability of unpredictable changes in the volume of resources. The Treasury ensures compliance with the requirements of the mandatory reserve and prudential liquidity ratios.

In order to manage liquidity during the crisis period, a Plan of Priority Measures has been developed in the event of a liquidity crisis which includes list of possible causes leading to the crisis, signs of a crisis, as well as a list of measures for the localization and responses to consequences of liquidity crisis if any. The plan sets responsible departments for specific activities and how they interact. The Group also conducts liquidity stress testing in a variety of scenarios covering standard and more unfavorable market conditions.

The table below shows liabilities at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because amounts disclosed in consolidated statement of financial position are based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2017 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months to 12 months</b>	<b>From 5 years to Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Due to the NBU	12,396	-	-	-	12,396
Due to banks and other financial institutions	184	-	16	38	238
Customer accounts	113,870	37,448	61,682	3,504	216,505
Debt securities in issue	-	-	-	3	3
Subordinated debt	2	2	135	-	139
Other financial liabilities	1,481	2	2	1	1,486
<b>Total contractual future payments for financial obligations</b>	<b>127,933</b>	<b>37,452</b>	<b>61,835</b>	<b>3,542</b>	<b>230,767</b>
<b>Credit related commitments and financial guarantees, gross (Note 28)</b>	<b>1,621</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,621</b>

**26 Financial Risk Management (Continued)**

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to the NBU	14,589	1,319	2,689	-	-	18,597
Due to banks and other financial institutions	138	90	2,375	252	-	2,855
Customer accounts	78,597	32,774	72,869	3,049	64	187,353
Debt securities in issue	-	-	-	-	3	3
Subordinated debt	2	2	8	132	-	144
Other financial liabilities	1,076	562	206	-	-	1,844
<b>Total contractual future payments for financial obligations</b>	<b>94,402</b>	<b>34,747</b>	<b>78,147</b>	<b>3,433</b>	<b>67</b>	<b>210,796</b>
<b>Credit related commitments and financial guarantees, gross (Note 28)</b>	<b>2,655</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,655</b>

Customer accounts are classified in the above analysis based on contractual maturities.

**26 Financial Risk Management (Continued)**

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2017:

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Over 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents and mandatory reserves	25,300	-	-	-	-	25,300
Due from banks	2,903	870	743	-	-	4,516
Loans and advances to customers	15,365	8,316	10,000	4,654	-	38,335
Embedded derivative assets	-	-	-	34,336	-	34,336
Investment securities available-for-sale	109	423	574	89,245	3	90,354
Investment securities held to maturity	304	3,399	1,046	31,573	-	36,322
Other financial assets	529	-	-	2	-	531
<b>Total financial assets</b>	<b>44,510</b>	<b>13,008</b>	<b>12,363</b>	<b>159,810</b>	<b>3</b>	<b>229,694</b>
<b>Liabilities</b>						
Due to the NBU	12,394	-	-	-	-	12,394
Due to banks and other financial institutions	185	-	15	34	-	234
Customer accounts	72,028	55,172	82,419	3,095	-	212,714
Debt securities in issue	-	-	-	2	-	2
Other financial liabilities	909	2	2	572	1	1,486
Subordinated debt	1	-	128	-	-	129
<b>Total financial liabilities</b>	<b>85,517</b>	<b>55,174</b>	<b>82,564</b>	<b>3,703</b>	<b>1</b>	<b>226,959</b>
<b>Net liquidity gap at 31 December 2017</b>	<b>(41,007)</b>	<b>(42,166)</b>	<b>(70,201)</b>	<b>156,107</b>	<b>2</b>	<b>2,735</b>
<b>Cumulative liquidity gap at 31 December 2017</b>	<b>(41,007)</b>	<b>(83,173)</b>	<b>(153,374)</b>	<b>2,733</b>	<b>2,735</b>	
<b>Credit related commitments and financial guarantees (Note 28)</b>	<b>994</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>994</b>

In accordance with effective legislation, the Group is obliged to repay term deposits of individuals on demand of a depositor if early repayment option is set contractually, but in this case a depositor's right to accrued interest is forfeited. The Group expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities. Current accounts are included on their historical stability assessed on a quarterly average basis, which the Group expects to continue with no significant changes.

As at 31 December 2017, on demand and less than in one month amounts due to the NBU included a past due amount of refinancing loans of UAH 10,689 million (31 December 2016: UAH 13,469 million). The NBU did not demand these refinancing loans for immediate repayment at the date of these consolidated financial statements.

## 26 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2016:

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Over 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents and mandatory reserves	30,159	-	-	-	-	30,159
Due from banks	564	1,080	766	-	-	2,410
Loans and advances to customers	10,818	6,483	17,797	8,484	-	43,582
Embedded derivative assets	-	-	-	27,044	-	27,044
Investment securities available-for-sale	1	12	38	64,358	-	64,409
Other financial assets	261	-	3	5	-	269
<b>Total financial assets</b>	<b>41,803</b>	<b>7,575</b>	<b>18,604</b>	<b>99,891</b>	<b>0</b>	<b>167,873</b>
<b>Liabilities</b>						
Due to the NBU	14,266	1,210	2,571	-	-	18,047
Due to banks and other financial institutions	136	55	2,235	241	-	2,667
Customer accounts	52,276	41,572	84,753	2,527	-	181,128
Debt securities in issue	-	-	-	2	-	2
Other financial liabilities	1,076	8	206	554	-	1,844
Subordinated debt	1	-	-	121	-	122
<b>Total financial liabilities</b>	<b>67,755</b>	<b>42,845</b>	<b>89,765</b>	<b>3,445</b>	<b>0</b>	<b>203,810</b>
<b>Net liquidity gap at 31 December 2016</b>	<b>(25,952)</b>	<b>(35,270)</b>	<b>(71,161)</b>	<b>96,446</b>	<b>-</b>	<b>(35,937)</b>
<b>Cumulative liquidity gap at 31 December 2016</b>	<b>(25,952)</b>	<b>(61,222)</b>	<b>(132,383)</b>	<b>(35,937)</b>	<b>(35,937)</b>	
<b>Credit related commitments and financial guarantees (Note 28)</b>	<b>1,651</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,651</b>

## 27 Management of Capital

Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually. Under the current capital requirements set by the National Bank of Ukraine have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level.

## 27 Management of Capital (Continued)

a) The Group also manages its capital, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017	31 December 2016
<b>Tier 1 capital</b>	<b>24,255</b>	<b>(2,457)</b>
<b>Tier 2 capital (a portion not exceeding 100% of Tier 1)</b>	<b>212</b>	<b>-</b>
<b>Total capital</b>	<b>24,467</b>	<b>(2,457)</b>
<b>Risk Weighted Assets</b>		
Banking book	109,739	105,432
Trading book	68,858	79,606
<b>Risk Weighted Assets</b>	<b>178,597</b>	<b>185,038</b>
<b>Tier 1 capital ratio</b>	<b>13.58%</b>	<b>(1.33%)</b>
<b>Capital adequacy ratio (%)</b>	<b>13.70%</b>	<b>(1.33%)</b>

b) As at 31 December 2017, the National Bank of Ukraine required banks to maintain a capital adequacy ratio at least 10% of risk weighted assets calculated in accordance with the regulations of the National Bank of Ukraine (31 December 2016: at least 10%).

Regulatory capital in accordance with the NBU's regulations comprises:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017	31 December 2016
Adjusted net assets	17,975	3,515
Add: Subordinated debt	27	54
Less: Investments in an associate	(433)	(433)
<b>Total regulatory capital</b>	<b>17,569</b>	<b>3,136</b>
<b>Risk weighted assets</b>	<b>79,938</b>	<b>126,246</b>
<b>Open foreign currency position</b>	<b>30,137</b>	<b>23,154</b>
<b>Uncovered credit risk</b>	<b>(8,854)</b>	<b>(61)</b>
<b>Capital adequacy ratio (N2)</b>	<b>17.36%</b>	<b>2.10%</b>

Information included in the table above is calculated according to the Regulation No. 368 of the Board of the National Bank of Ukraine dated 28 August 2001 (as amended) "On the Regulation of the Banks and Banking Activity in Ukraine", including the adjustment relating to the calculation of provision for loans and advances to customers in accordance with Regulation No. 351 of the Board of the National Bank of Ukraine dated 30 June 2016 "On Calculation of the Loan Loss Provision by Ukrainian banks".

## 28 Contingencies and Commitments

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group are received. As at 31 December 2017, provision of UAH 959 million has been recorded for potential legal liabilities (31 December 2016: UAH 36 million).

Also, as disclosed in Note 1, at the nationalisation of the Bank, the DGF has 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. At the date of these consolidated financial statements, UAH 21,215 million at exchange rate as at the date of these financial statements of claims were filed against the Group in respect of some of these liabilities. The ultimate outcome cannot be determined, except for amounts already recognized in these consolidated financial statements. Consequently, the Group did not recognise any additional provision for these claims.

For the provision associated with loss of control over its business in Crimea refer to Note 4.

## **28 Contingencies and Commitments (Continued)**

**Tax legislation.** Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

Management further believes that ascertained risks of possible outflow of resources arising from tax and other regulatory compliance matters in the periods preceding 31 December 2017 do not exceed UAH 2,174 million.

**Capital expenditure commitments.** At 31 December 2017, the Group had contractual capital expenditure commitments in respect of construction of premises and acquisition of computers and furniture and equipment totalling UAH 116 million (31 December 2016: UAH 22 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

**Operating lease commitments.** As at 31 December 2017, and 2016 the Group had no commitments under non-cancellable operating leases.

**Compliance with covenants.** The Group is also subject to certain covenants related to refinancing loans obtained from the NBU. As at 31 December 2017, the Group was not in compliance with long open currency position and short open currency position ratios as well as other non-financial restrictions prescribed by the loan agreements with the NBU.

In 2016 and 2017, the NBU performed its reviews of the Group's compliance with refinancing loans' covenants and did not request early repayment of the loans.

**Contingent liabilities.** As at 31 December 2017 the Group had a contingent liability of UAH 5,558 million (2016: UAH 6,916 million) relating to cessation of its operations in Crimea, being the outstanding amount of customer accounts in Crimea at discontinuance of operations (i.e. as of November 2014) less amount claimed and provisioned. Refer to Note 4. It is not probable that outflow of resources will be required to settle these obligations originated in Crimea and the amount of such obligations cannot be measured reliably by the Group.

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

## 28 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017	31 December 2016
Guarantees issued	1,241	1,706
Import letters of credit and cash covered letters of credit	362	652
Irrevocable commitments to extend credit	18	294
Less: Cash covered letters of credit	(362)	(652)
Less: Provision for credit related commitments	(181)	(247)
Less: Cash covered guarantees issued	(84)	(102)
<b>Total credit related commitments and financial guarantees</b>	<b>994</b>	<b>1,651</b>

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments as at 31 December 2017 and 2016 was insignificant.

Credit related commitments are denominated in currencies as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017	31 December 2016
Ukrainian Hryvnias	702	1,112
US Dollars	75	215
Euro	18	139
Other currencies	199	185
<b>Total</b>	<b>994</b>	<b>1651</b>

As at 31 December 2017, the Group had undrawn credit limits on credit cards of UAH 53,848 million (31 December 2016: UAH 20,264 million) that were available to credit cardholders. These credit limits are revocable. The Group on a regular basis monitors activity on the cards and based on the frequency and pattern of withdrawals and repayments done by borrowers is able to reduce limits on credit cards unilaterally.

**Fiduciary assets.** These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017 Nominal value	31 December 2016Nominal value
Shares of Ukrainian companies	2,151	4,822
Domestic corporate bonds	571	717
Investment certificates	283	319

## 28 Contingencies and Commitments (Continued)

**Assets pledged.** The Group had assets pledged as collateral with the following carrying value:

	Note	31 December 2017		Note	31 December 2016	
		Asset pledged and restricted	Related liability/commitment		Asset pledged and restricted	Related liability/commitment
<i>In millions of Ukrainian hryvnias</i>						
Gross receivables under swap, forward and spot agreements		67	67		(1)	-
Cash balances with the NBU, premises, investment properties and repossessed collateral (2016: cash balances with the NBU, premises, investment properties, repossessed collateral and loans and advances to customers)	7, 9, 12, 13, 15	7,095	12,394	7, 9, 12, 13, 15	34,658	18,047
Investment securities held to maturity under the cash consignment contract with the NBU	11	1,565	-		-	-
<b>Total</b>		<b>8,727</b>	<b>12,461</b>		<b>34,657</b>	<b>18,047</b>

Gross receivables under swap, forward and spot agreements presented above were recognised on a net basis in the consolidated statement of financial position, giving rise to a derivative financial asset or liability within other financial assets or other financial liabilities, respectively.

As disclosed in Note 8, balances due from banks of UAH 1,613 million (31 December 2016: UAH 2,410 million) have been pledged as cover for letters of credit and international payments.

## 29 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

**29 Fair Value of Financial Instruments (Continued)**

**(a) Recurring fair value measurements.**

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS AT FAIR VALUE</b>								
<b><i>Investment securities available-for-sale</i></b>								
Unquoted shares	-	1	-	1	-	1	-	1
Long-term government debt securities with an embedded option	-	-	47,444	47,444	-	-	47,046	47,046
Long-term government debt securities without an embedded option	-	-	31,163	31,163	-	-	17,363	17,363
Long-term government debt securities denominated in foreign currency	-	-	11,747	11,747	-	-	-	-
<b><i>Embedded derivative assets</i></b>	-	-	34,336	34,336	-	-	27,044	27,044
<b>NON-FINANCIAL ASSETS</b>								
Premises	-	-	1,608	1,608	-	-	2,134	2,134
Reposessed collateral	-	-	11,268	11,268	-	-	21,836	21,836
Investment properties	-	-	579	579	-	-	1,358	1,358
Assets held for sale	-	-	117	117	-	-	-	-
<b>TOTAL ASSETS RECCURING FAIR VALUE MEASUREMENT</b>	-	1	138,262	138,263	-	1	116,781	116,782

Valuation technique used for level 2 measurements is linked to market prices of similar financial instruments quoted on active market.

Valuation technique used for level 3 measurements included discounted cash flows and other appropriate valuation techniques (models). Embedded derivative assets and investment securities available-for-sale are classified into level 3 instruments because these instruments require management to make assumptions for certain adjustments which had significant impact on fair values - exchange rates volatility, discount rates and/ or a credit risk of the counterparties which are not fully supportable by observable market data.

**29 Fair Value of Financial Instruments (Continued)**

**Movements in level 3 financial instruments measured at fair value**

A reconciliation of movements in Level 3 of the fair value hierarchy of the embedded derivative assets and investment securities available-for-sale for the years ended 31 December 2017 and 2016 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Embedded derivative assets</b>	<b>Investment securities available-for-sale</b>
<b>Fair value at 1 January 2016</b>	<b>30,673</b>	<b>-</b>
Initial recognition of derivative recorded as adjustment to the amounts of loans and advances to customers	1,086	-
Investment securities available-for-sale received as a contribution to the share capital	-	107,000
<i>Total gains (losses) recorded in :</i>		
Initial recognition - directly in equity	27,296	(17,362)
Revaluation of investment securities available-for-sale – in other comprehensive income	-	520
Interest income accrued on investment securities available-for-sale	-	51
Losses from embedded derivative assets	(23,955)	-
<i>Settlements:</i>		
Cash received	(953)	(25,800)
Embedded derivative settled with repossessed collateral	(7,103)	-
<b>Fair value as at 31 December 2016</b>	<b>27,044</b>	<b>64,409</b>
Investment securities available-for-sale received as a contribution to the share capital	-	16,065
Purchased long-term government debt securities denominated in foreign currency	-	11,478
<i>Total gains (losses) recorded in :</i>		
Initial recognition - directly in equity	3,893	(895)
Revaluation of investment securities available-for-sale – in other comprehensive income	-	(1,000)
Interest income accrued on investment securities available-for-sale	-	6,223
Gains from embedded derivative assets	3,491	-
<i>Settlements:</i>		
Cash received	-	(5,927)
Other settlements	(92)	-
<b>Fair value as at 31 December 2017</b>	<b>34,336</b>	<b>90,354</b>

**29 Fair Value of Financial Instruments (Continued)**

**(b) Assets and liabilities not measured at fair value but for which fair value is disclosed**

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>FINANCIAL ASSETS</b>								
<b><i>Due from banks</i></b>								
Deposit certificates of the National Bank of Ukraine	-	2,853	-	2,853	-	-	-	-
Guarantee deposits with banks	-	-	1,613	1,613	-	-	2,410	2,410
Other	-	-	50	50	-	-	-	-
<b><i>Loans and advances to customers</i></b>								
Corporate loans	-	-	2,654	3,691	-	-	8,826	9,319
Loans to individuals - cards	-	-	25,567	25,567	-	-	15,823	15,830
Loans to individuals - mortgage	-	-	1,756	1,767	-	-	1,944	2,011
Loans to individuals - auto	-	-	9	9	-	-	16	13
Loans to individuals - consumer	-	-	3,014	3,014	-	-	961	961
Loans to individuals - other	-	-	127	124	-	-	361	351
Loans to small and medium enterprises (SME)	-	-	2,057	1,987	-	-	868	902
Finance lease receivables	-	-	2,176	2,176	-	-	14,195	14,195
<b><i>Investment securities held to maturity</i></b>								
Long-term government debt securities without an embedded option	-	-	24,421	24,538	-	-	-	-
Long-term government debt securities with an embedded option	-	-	6,318	7,604	-	-	-	-
Short-term bonds issued by the State Mortgage Institution	-	-	953	953	-	-	-	-
Short-term government debt securities	-	-	3,185	3,227	-	-	-	-
<b><i>Other financial assets</i></b>								
Receivables from operations with customers	-	-	317	317	-	-	161	161
Other	-	-	214	214	-	-	108	108
<b>TOTAL</b>	-	2,853	74,431	79,704	-	-	45,673	46,261

Fair value of cash and cash equivalents approximates their carrying value.

## 29 Fair Value of Financial Instruments (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>FINANCIAL LIABILITIES</b>								
<b><i>Due to the NBU</i></b>								
Due to the NBU	-	12,394	-	12,394	-	18,047	-	18,047
<b><i>Due to banks and other financial institutions</i></b>								
Term placements of banks	-	-	30	30	-	-	565	565
Long-term loans under the credit lines from other financial institutions	-	-	19	19	-	-	2,040	2,040
Correspondent accounts and overnight placements of banks	-	184	-	184	-	61	-	61
Pledge deposits of banks	-	-	1	1	-	-	1	1
<b><i>Customer accounts</i></b>								
Term deposits of individuals	-	-	119,674	119,476	-	-	119,749	119,519
Current/demand accounts of individuals	-	52,118	-	52,118	-	31,684	-	31,684
Current/settlement accounts of legal entities	-	28,323	-	28,323	-	15,250	-	15,250
Term deposits of legal entities	-	-	12,836	12,797	-	-	14,865	14,675
<b><i>Debt securities in issue</i></b>	-	-	-	2	-	-	-	2
<b><i>Other financial liabilities</i></b>								
Funds in the course of settlement	-	-	25	25	-	-	447	447
Accounts payable	-	-	311	311	-	-	83	83
Other	-	-	1,150	1,150	-	-	1,314	1,314
<b><i>Subordinated debt</i></b>								
Subordinated debt	-	-	129	129	-	-	122	122
<b>TOTAL</b>	<b>-</b>	<b>93,019</b>	<b>134,175</b>	<b>226,959</b>	<b>-</b>	<b>65,042</b>	<b>139,186</b>	<b>203,810</b>

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique and market prices of quoted notes on non-active market. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

The Group's liabilities to its customers are subject to state deposit insurance plan as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

## 30 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 ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category.

**30 Presentation of Financial Instruments by Measurement Category (Continued)**

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2017:

<i>In millions of Ukrainian hryvnias</i>	<b>Loans and receivables</b>	<b>Available-for- sale assets</b>	<b>Assets at FVTPL held for trading</b>	<b>Held to maturity</b>	<b>Finance lease receivables</b>	<b>Total</b>
<b>ASSETS</b>						
<b>Cash and cash equivalents and mandatory reserves</b>	25,300	-	-	-	-	25,300
<b>Due from banks</b>						
Deposit certificates of the National Bank of Ukraine	2,853	-	-	-	-	2,853
Guarantee deposits with banks	1,613	-	-	-	-	1,613
Other	50	-	-	-	-	50
<b>Loans and advances to customers</b>						
Corporate loans	3,691	-	-	-	-	3,691
Loans to individuals – cards	25,567	-	-	-	-	25,567
Loans to individuals – mortgage	1,767	-	-	-	-	1,767
Loans to individuals – auto	9	-	-	-	-	9
Loans to individuals – consumer	3,014	-	-	-	-	3,014
Loans to individuals – other	124	-	-	-	-	124
Loans to small and medium enterprises (SME)	1,987	-	-	-	-	1,987
Finance lease receivables	-	-	-	-	2,176	2,176
<b>Embedded derivative assets</b>	-	-	34,336	-	-	34,336
<b>Investment securities available-for-sale</b>						
Long-term government debt securities with an embedded option	-	47,444	-	-	-	47,444
Long-term government debt securities without an embedded option	-	31,163	-	-	-	31,163
Long-term government debt securities denominated in foreign currency	-	11,747	-	-	-	11,747
<b>Investment securities held-to-maturity</b>						
Long-term government debt securities without an embedded option	-	-	-	24,538	-	24,538
Long-term government debt securities with an embedded option	-	-	-	7,604	-	7,604
Short-term bonds issued by the State Mortgage Institution	-	-	-	953	-	953
Short-term government debt securities	-	-	-	3,227	-	3,227
<b>Other financial assets</b>						
Receivables from operations with customers	351	-	-	-	-	351
Other	180	-	-	-	-	180
<b>TOTAL FINANCIAL ASSETS</b>	<b>66,506</b>	<b>90,354</b>	<b>34,336</b>	<b>36,322</b>	<b>2,176</b>	<b>229,694</b>
<b>NON-FINANCIAL ASSETS</b>						<b>25,176</b>
<b>TOTAL ASSETS</b>						<b>254,870</b>

As at 31 December 2017 and 2016 all of the Group's financial liabilities were carried at amortised cost.

### 30 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2016:

<i>In millions of Ukrainian hryvnias</i>	<b>Loans and Available-for-sale assets</b>	<b>Assets at FVTPL held for trading</b>	<b>Held to maturity</b>	<b>Finance lease receivables</b>	<b>Total</b>
<b>ASSETS</b>					
<b>Cash and cash equivalents and mandatory reserves</b>	30,159	-	-	-	30,159
<b>Due from banks</b>					
Guarantee deposits with banks	2,410	-	-	-	2,410
<b>Loans and advances to customers</b>					
Corporate loans	9,319	-	-	-	9,319
Loans to individuals – cards	15,830	-	-	-	15,830
Loans to individuals – mortgage	2,011	-	-	-	2,011
Loans to individuals – auto	13	-	-	-	13
Loans to individuals – consumer	961	-	-	-	961
Loans to individuals – other	351	-	-	-	351
Loans to small and medium enterprises (SME)	902	-	-	-	902
Finance lease receivables	-	-	-	14,195	14,195
<b>Embedded derivative assets</b>	-	27,044	-	-	27,044
<b>Investment securities available-for-sale</b>					
Government bonds	-	64,408	-	-	64,408
Unquoted shares	-	1	-	-	1
<b>Other financial assets</b>					
Receivables from operations with customers	161	-	-	-	161
Other	108	-	-	-	108
<b>TOTAL FINANCIAL ASSETS</b>	<b>62,225</b>	<b>64,409</b>	<b>27,044</b>	<b>-</b>	<b>167,873</b>
<b>NON-FINANCIAL ASSETS</b>					<b>37,486</b>
<b>TOTAL ASSETS</b>					<b>205,359</b>

### 31 Related Party Transactions

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. The note only discloses significant amounts.

As at 31 December 2017 and 2016, the Group was 100% owned by the Government represented by the Ministry of Finance of Ukraine, which became the sole shareholder of the Bank after nationalisation in December 2016. Refer to Note 1. Transactions and balances with related parties after nationalisation mainly consist of transactions with Ukrainian companies related to the State (both directly and indirectly under the control and significant influence of the State) and the shareholder.

**31 Related Party Transactions (Continued)**

At 31 December 2017 and 31 December 2016, the outstanding balances with related parties are as follows:

	31 December 2017				31 December 2016			
	Shareholder	Management	Associated	Entities under	Shareholder	Management	Associated	Entities
			companies	common			companies	under
				control				common
								control
<i>In millions of Ukrainian hryvnias</i>								
Cash and cash equivalents and mandatory reserves	-	-	34	5,408	-	-	170	6,008
Due from banks	-	-	-	2,903	-	-	2	-
Loans and advances to customers, gross (contractual interest rate: 2017 – UAH – 14%, USD – 11%; 2016 – UAH – 15%, USD – 12%)	-	-	-	362	-	-	-	365
Less: Allowance for loan impairment	-	-	-	(324)	-	-	-	(340)
Embedded derivative assets	34,336	-	-	-	27,044	-	-	-
Investment securities available-for-sale	90,353	-	-	1	64,409	-	-	-
Investment securities held to maturity	35,369	-	-	953	-	-	-	-
Investment in associates	-	-	117	-	-	-	507	-
Other financial assets	-	-	53	19	-	-	-	2
Other assets	-	-	-	-	-	-	53	-
Due to the NBU	-	-	-	12,394	-	-	-	18,047
Due to banks and other financial institutions	-	-	149	-	-	-	14	-
Customer accounts (contractual interest rate: 2017 UAH – 5%, USD – 2%, EUR – 3%; 2016 UAH – 3%, USD – 11%, EUR – 9%)	-	13	-	455	-	87	-	11
Other financial liabilities	-	-	-	502	-	-	-	-

**31 Related Party Transactions (Continued)**

The income and expense items with related parties during the period for 12 months 2017 and the period from 19 to 31 December 2016 are as follows:

	12 months 2017				For the period of 19 to 31 December 2016			
	Shareholder	Management	Associated companies	Entities under common control	Shareholder	Management	Associated companies	Entities under common control
<i>In millions of Ukrainian hryvnias</i>								
Interest income	7,872	-	7	231	51	-	20	3
Interest expense	-	-	-	(2,806)	-	(17)	(2)	(396)
Fee and commission income	-	-	-	9	-	-	-	-
Gains less losses from embedded derivatives	3,399	-	-	-	-	-	-	-
Foreign exchange translation (losses less gains)/gains less losses	689	-	(21)	(7)	-	-	(9)	-
Impairment of investments in an associate	-	-	(286)	-	-	-	-	-
Administrative and other operating expenses, excluding management remuneration	-	-	-	(8)	-	-	-	(1)

The income and expense items with related parties during the period before the change of the Group owners:

	For the period ended 19 December 2016		
	Shareholder	Management	Entities under common control
<i>In millions of Ukrainian hryvnias</i>			
Interest income	-	-	4,881
Interest expense	(84)	(50)	(373)
Charge for impairment of loans and advances to customers	-	-	2,657
Fee and commission income	-	-	44
Losses less gains from financial derivatives	-	-	4,437
Foreign exchange translation (losses less gains)/gains less losses	-	(1)	1,345
Other income	-	-	12
Administrative and other operating expenses, excluding management remuneration	-	-	(4)

**31 Related Party Transactions (Continued)**

Aggregate amounts lent to and repaid by related parties during the period for 12 months 2017 and the period from 19 to 31 December 2016 are as follows:

	12 months 2017				For the period of 19 to 31 December 2016			
	Shareholder	Management	Associated companies	Entities under common control	Shareholder	Management	Associated companies	Entities under common control
<i>In millions of Ukrainian hryvnias</i>								
Amounts lent to related parties during the period	-	1	-	105,890	-	5	-	-
Amounts repaid by related parties during the period	-	1	272	103,836	-	5	-	-
Loans repaid to related parties during the period	-	-	-	17,689	-	-	-	26,746
Loans lent by related parties during the period	-	-	-	25,568	-	-	-	25,000
Amounts granted by investment securities for sale by investment securities available-for-sale	26,853	-	-	-	-	-	-	-
Amounts received under investment securities for sale by investment securities available-for-sale	4,521	-	-	1,406	-	-	-	-
Amounts granted by investment trading securities by investment securities held to maturity	35,739	-	-	985	-	-	-	-
Amounts received under investment trading securities by investment securities held to maturity	1,263	-	-	45	-	-	-	-

Aggregate amounts lent to and repaid by related parties during the period before the change of the Group owner:

	For the period ended 19 December 2016		
	Shareholder	Management	Entities under common control
<i>In millions of Ukrainian hryvnias</i>			
Amounts lent to related parties during the period	-	35	10,346
Amounts repaid by related parties during the period	-	35	49,437

For 12 months 2017 the remuneration of the members of the Management Board comprised of salaries, pension contributions and other short-term benefits totalling UAH 44 million (for 12 months 2016: UAH 19 million).

**Regulatory criteria for related party identification**

Related party identification criteria of IAS 24 differs from the criteria set forth by the National Bank of Ukraine Regulation "On determination of related parties for banks" #315 dated 12 May 2015 (as amended) (Regulation #315).

The loan portfolio, presented as 'Loans managed as a separate portfolio' of UAH 185,575 million (31 December 2016: UAH 191,139 million), as disclosed in Note 9, is classified as related with previous shareholders according to the Regulation #315.

### 32 Changes in Liabilities Arising from Financial Activities

	Due to the NBU	Debt securities in issue and other borrowed funds	Total
<i>In millions of Ukrainian hryvnias</i>			
<b>Carrying value as at 1 January 2016</b>	<b>27,079</b>	<b>9,271</b>	<b>36,350</b>
Repayment of the refinancing loan to the NBU	(33,663)	-	(33,663)
Proceeds from the refinancing loan of the NBU	25,000	-	25,000
Currency translation differences	-	935	935
Conversion to equity	-	(9,062)	(9,062)
Other	(369)	(132)	(501)
<b>Carrying value as at 31 December 2016</b>	<b>18,047</b>	<b>2</b>	<b>18,049</b>
Repayment of the refinancing loan to the NBU	(7,212)	-	(7,212)
Proceeds from the refinancing loan of the NBU	1,500	-	1,500
Other	59	-	59
<b>Carrying value as at 31 December 2017</b>	<b>12,394</b>	<b>2</b>	<b>12,396</b>

The "Other" line includes the effect of accrued but not yet paid interest on due to the NBU and debt securities issued. The Group classifies interest paid as cash flows from operating activities.

### 33 Events After the End of the Reporting Period

On 12 March 2018, the Cabinet of Ministers of Ukraine approved the Fundamental Principles of Strategic Reform of the state banks, including the Bank, and, on the basis of the approved Fundamental Principles, the Ministry of Finance of Ukraine approved the main directions and goals of the Bank's activities, namely:

- continue to grow retail segment;
- activate SME;
- start developing a corporate segment;
- enhance risk management system and achieve recovery of non-performing loans;
- launch cost optimization program;
- implement key efficiency indicators system.

In addition, the Bank should achieve the following approved key metrics by 2022:

- net profit of UAH 8.4 billion;
- cost to income of 48%;
- return on capital of 25%;
- total earnings for the Shareholder of UAH 81 billion (defined as total amount of all dividends and proceeds from shares sales received by the Shareholder for the years 2018-2022 and the value of state owned shares in 2022).