Joint Stock Company
“The State Export-Import Bank of Ukraine”

Annual consolidated financial statements

for the year ended 31 December 2016
and independent auditor’s report

Translation from Ukrainian original

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Translation from Ukrainian original

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Independent auditor's report

To the Shareholders and Board of Directors of Joint Stock Company "The State Export-Import Bank of Ukraine"

Opinion

We have audited the consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (together referred to as "the Bank"), which comprise the consolidated statement of financial position (consolidated balance sheet) as at 31 December 2016, the consolidated statement of profit and loss (consolidated income statement), the consolidated statement of comprehensive income, the consolidated statement of changes in equity (consolidated statement of equity) and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Valuation of allowance for impairment of loans to customers

The appropriateness of allowance for impairment on loans to customers is a key area of judgment for the Bank's management. The identification of impairment and the determination of the recoverable amount 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.

The use of different modelling techniques and assumptions could produce significantly different estimates of allowance for impairment on loans to customers. Taking into account the significance of the loans to customers balances (36% of total assets) and high level of subjectivity of assumptions, we considered valuation of allowance for impairment on loans to customers as a key audit matter.

Our audit procedures included the assessment of the methodology used by the Bank to identify impairment indications and calculation of allowance for impairment, testing of input data and analysis of assumptions. For the allowance for impairment calculated on an individual basis, we tested the assumptions underlying the impairment identification and quantification including assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral. For the allowance for impairment calculated on a collective basis, we tested the underlying models including the inputs to those models and their mathematical accuracy.

We assessed the Bank's information about the allowance for impairment on loans to customers disclosed in Notes 8, 25, 26 and 27 to the consolidated financial statements.

Valuation of government bonds

Valuation of government bonds and related embedded derivate 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 9 and 26 to the consolidated financial statements provides information on the government bonds and related embedded derivative financial instruments.

Our audit procedures in respect of the valuation of government bonds included inquiries of the Bank's management about the significant assumptions applied, assessment and testing of inputs used, assessing mathematical accuracy of the calculation and comparing the results in the models to the amounts recognised in the consolidated statement of financial position as at 31 December 2016. We involved our valuation specialists to evaluate the methodology and assumptions used. We assessed the Bank's disclosures in relation to the government bonds and related embedded derivative financial instruments.

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Valuation of deferred tax assets

The Bank has significant recognised and unrecognised deferred tax asset balances as at 31 December 2016. Recognition of deferred tax asset is dependent on the availability of future taxable profits. There is an inherent uncertainty involved in forecasting future taxable profits. The analysis of the recognition and recoverability of deferred tax asset was one of the matters of most significance to our audit because the amounts are material, the assessment process is judgmental, and is based on assumptions that are affected by expected future market and economic conditions.

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

We also analysed and tested the deferred tax asset disclosures prepared by the Bank and presented in Notes 4 and 13.

Other matter

The consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries as at 31 December 2015 and for the year then ended were audited by another auditor who issued an auditor's report dated 5 April 2016 with an unmodified opinion and an emphasis of matter paragraph drawing attention to political and economic uncertainties in Ukraine

Other information included in the Bank's Annual Report

Other information consists of the Annual report of Joint Stock Company "The State Export-Import Bank of Ukraine" other than consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of Joint Stock Company "The State Export-Import Bank of Ukraine" 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 will not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in

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the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

Ernst & Young Audit Services LLC

Kyiv, Ukraine

8 June 2017

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

Svistich O.M.
General Director

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONSOLIDATED BALANCE SHEET)

As at 31 December 2016

(thousands of Ukrainian hryvnia)

	Notes	*31 December 2016*	*31 December 2015*
Assets			
Cash and cash equivalents	6	21,378,517	24,241,179
Due from credit institutions	7	1,544,476	4,083,743
Loans to customers	8	58,469,531	55,099,903
Investment securities:	9		
- designated at fair value through profit or loss		24,064,110	9,924,610
- available-for-sale		48,193,549	41,191,570
- held-to-maturity		139,098	230,912
Tax assets	13	101,677	293,122
Investment property	10	1,344,074	1,566,942
Property and equipment	11	2,120,672	2,170,944
Intangible assets	12	26,778	17,584
Deferred income tax asset	13	2,322,000	1,730,750
Other assets	15	697,747	797,253
Total assets		**160,402,229**	**141,348,512**
Liabilities			
Amounts due to the National Bank of Ukraine	16	659	2,979,775
Amounts due to credit institutions	17	27,930,729	19,298,870
Amounts due to customers	18	85,788,952	79,317,943
Eurobonds issued	19	37,562,345	33,122,294
Subordinated debt	20	3,495,895	9,375,369
Provisions for other losses	14	5,137	22,213
Other liabilities	15	258,246	292,387
Total liabilities		**155,041,963**	**144,408,851**
Equity			
Share capital	21	31,008,041	21,689,042
Revaluation reserves	21	725,335	664,823
Accumulated deficit		(26,536,036)	(25,577,130)
Reserve and other funds	21	162,926	162,926
Total equity		**5,360,266**	**(3,060,339)**
Total equity and liabilities		**160,402,229**	**141,348,512**

Authorised for release and signed

8 June 2017

Chairman of the Board O.V. Hrytsenko

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

The notes on pages 6-69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS (CONSOLIDATED INCOME STATEMENT)

For the year ended 31 December 2016

(thousands of Ukrainian hryvnia)

	Notes	*2016*	*2015*
Interest income			
Loans to customers		8,107,630	7,333,783
Investment securities other than designated at fair value through profit or loss		4,043,335	4,696,434
Due from credit institutions		273,248	642,360
Amounts due from the National Bank of Ukraine		399,002	247,309
		12,823,215	**12,919,886**
Investment securities designed at fair value through profit or loss		857,196	291,524
		13,680,411	**13,211,410**
Interest expense			
Amounts due to customers		(5,195,463)	(5,218,921)
Eurobonds issued		(3,399,655)	(2,795,722)
Amounts due to the National Bank of Ukraine		(202,840)	(904,487)
Amounts due to credit institutions		(887,024)	(1,013,118)
Subordinated debt		(761,388)	(885,991)
		(10,446,370)	**(10,818,239)**
Net interest income		**3,234,041**	**2,393,171**
Allowance for loan impairment charge	7, 8	(5,700,145)	(10,326,225)
Net interest margin after allowance for loan impairment		**(2,466,104)**	**(7,933,054)**
Commission income		1,003,648	1,102,590
Commission expense		(352,117)	(392,045)
Commission income, net	23	**651,531**	**710,545**
Net gains from investment securities designated at fair value through profit and loss		5,314,500	3,886,182
Net gains/(losses) from available-for-sale investment securities:			
- dealing		–	32,871
- losses on impairment		–	(2,955,590)
Net gains/(losses) from foreign currencies:			
- dealing		507,924	878,047
- translation differences		(3,472,421)	(6,823,654)
Net gains/(losses) from precious metals:			
- dealing		490	9,592
- revaluation		(3,853)	(13,874)
Other income		114,937	105,603
Other non-interest income, net		**2,461,577**	**(4,880,823)**
Personnel expenses	24	(765,616)	(864,949)
Depreciation and amortisation	11, 12	(102,751)	(105,939)
Other operating expenses	24	(841,156)	(965,679)
Loss on initial recognition of financial assets		(7,350)	(18,633)
Other impairment and provisions	14	(122,487)	(11,961)
Non-interest expense		**(1,839,360)**	**(1,967,161)**
Loss before tax		**(1,192,356)**	**(14,070,493)**
Income tax credit	13	215,050	6,721
Loss for the year		**(977,306)**	**(14,063,772)**

Authorised for release and signed

8 June 2017

Chairman of the Board O.V. Hrytsenko

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

The notes on pages 6-69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(thousands of Ukrainian hryvnia)

	Notes	*2016*	*2015*
Loss for the year		**(977,306)**	**(14,063,772)**
Other comprehensive loss			
Other comprehensive income/(loss) to be reclassified to the consolidated statement of profit and loss (the consolidated income statement)			
Net gains/(losses) on investment securities available-for-sale	21	78,912	(572,145)
Other comprehensive income/(loss) for the year, net of tax		**78,912**	**(572,145)**
Total comprehensive loss for the year		**(898,394)**	**(14,635,917)**

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8 June 2017

Chairman of the Board O.V. Hrytsenko

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

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

For the year ended 31 December 2016

(thousands of Ukrainian hryvnia)

	Share capital	*Unregistered contributions to share capital*	*Revaluation reserve*	*Accumulated deficit*	*Reserve and other funds*	*Total capital*
As at 1 January 2015	**16,689,042**	**5,000,000**	**1,255,595**	**(11,531,985)**	**162,926**	**11,575,578**
Loss for the year	–	–	–	(14,063,772)	–	(14,063,772)
Other comprehensive loss for the year	–	–	(572,145)	–	–	(572,145)
Total comprehensive loss for the year	**–**	**–**	**(572,145)**	**(14,063,772)**	**–**	**(14,635,917)**
Depreciation of revaluation reserve, net of tax (Note 21)	–	–	(18,627)	18,627	–	–
Increase in share capital (Note 21)	5,000,000	(5,000,000)	–	–	–	–
As at 31 December 2015	**21,689,042**	**–**	**664,823**	**(25,577,130)**	**162,926**	**(3,060,339)**
Loss for the year	–	–	–	(977,306)	–	(977,306)
Other comprehensive income for the year	–	–	78,912	–	–	78,912
Total comprehensive loss for the year	**–**	**–**	**78,912**	**(977,306)**	**–**	**(898,394)**
Depreciation of revaluation reserve, net of tax (Note 21)	–	–	(18,400)	18,400	–	–
Increase in share capital (Note 21)	9,318,999	–	–	–	–	9,318,999
As at 31 December 2016	**31,008,041**	**–**	**725,335**	**(26,536,036)**	**162,926**	**5,360,266**

Authorised for release and signed

8 June 2017

Chairman of the Board O.V. Hrytsenko

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016 (direct method)

(thousands of Ukrainian hryvnia)

	Notes	2016	2015
Cash flows from operating activities			
Interest received		11,158,861	11,552,900
Interest paid		(10,457,406)	(10,583,546)
Commissions received		897,256	906,363
Commissions paid		(349,227)	(389,930)
Result from dealing in foreign currencies and precious metals		508,414	887,639
Personnel expenses		(774,687)	(842,730)
Other operating income		95,474	105,334
Other operating and administrative expenses		(716,322)	(497,409)
Cash flow from operating activities before changes in operating assets and liabilities		**362,363**	**1,138,621**
Net (increase)/decrease in operating assets			
Due from credit institutions		2,695,350	(1,580,103)
Loans to customers		(1,444,595)	3,249,513
Other assets		(28,785)	(417,117)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		992,116	(1,590,752)
Amounts due to the National Bank of Ukraine		(2,979,217)	(2,221,039)
Amounts due to customers		(511,698)	(2,207,107)
Other liabilities		52,088	112,608
Net cash flows from operating activities before income tax		**(862,378)**	**(3,515,376)**
Income tax paid		(194,916)	(43,282)
Net cash flows from operating activities		**(1,057,294)**	**(3,558,658)**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		28,848,132	19,015,540
Purchase of investment securities		(30,030,454)	(9,814,312)
Dividends received		24	580
Purchases of property, equipment and intangible assets		(62,498)	(35,275)
Proceeds from sale of property and equipment		238	84
Purchases of investment property		(12,306)	–
Proceeds from sale of investment property		77,467	715
Net cash flows from investing activities		**(1,179,397)**	**9,167,332**
Cash flows from financing activities			
Redemption of subordinated debt		(6,203,838)	–
Proceeds from borrowings from credit institutions		6,878,653	1,021,013
Repayment of borrowings from credit institutions		(2,360,983)	(4,511,602)
Net cash flows from financing activities		**(1,686,168)**	**(3,490,589)**
Effect of exchange rates changes on cash and cash equivalents		1,060,197	5,332,680
Net change in cash and cash equivalents		**(2,862,662)**	**7,450,765**
Cash and cash equivalents, 1 January		**24,241,179**	**16,790,414**
Cash and cash equivalents, 31 December	6	**21,378,517**	**24,241,179**

Authorised for release and signed

8 June 2017

Chairman of the Board O.V. Hrytsenko

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

1. Principal activities

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

As at 31 December 2016 and 2015, 100% of UkrEximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

UkrEximBank's head office is in Kyiv at 127 Antonovycha Str. It has 24 branches and 59 operating outlets (31 December 2015: 27 branches and 75 operating outlets) and 2 representative offices located in London and New-York. UkrEximBank and its branches form a single legal entity.

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

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

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

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

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

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

2. Basis of preparation of financial statements

General information

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

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

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

3. Summary of accounting policies

Changes in accounting policies

The following amended standards became effective for the Bank from 1 January 2016, but did not have any material impact on the Bank:

- IFRS 14 *Regulatory Deferral Accounts* (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- *Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11* (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- *Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38* (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- *Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41* (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- *Equity Method in Separate Financial Statements – Amendments to IAS 27* (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- *Disclosure Initiative Amendments to IAS 1* (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- *Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 2*8 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Basis of consolidation

Consolidated financial statements

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

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

The Bank 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.

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

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 Bank'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 Bank. Non-controlling interest forms a separate component of the Bank's equity.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are initially recognised, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Financial assets at fair value through profit or loss

Financial assets, designated at fair value through profit or loss at inception, are included in the item 'Investment Securities' of the consolidated statement of financial position (the consolidated balance sheet). Derivatives are classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated statement of profit and loss (the consolidated income statement).

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

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

If the Bank is unable to determine the value of the embedded derivative separately at the acquisition date or at the end of the next financial reporting period, these financial assets are accounted at fair value with changes through profit or loss.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are measured at amortised cost. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These loans and receivables are not entered into with the intention of either immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of profit and loss (the consolidated income statement). However, interest calculated using the effective interest method is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Investments in equity instruments that do not have a quoted market price in an active market and if their fair value cannot be reliably measured are accounted at cost less any allowance for impairment.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

Offsetting

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

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

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

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets originally held for trading may be reclassified to available-for-sale or held to maturity categories only in exceptional circumstances.

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

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

Cash and cash equivalents

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

Precious metals

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

Repurchase and reverse repurchase agreements and securities lending

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

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

Promissory notes

Promissory notes purchased are included in available-for-sale investment securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Derivative financial instruments

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

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss.

Borrowings

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

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

Leases

i. Finance – Bank as a lessor

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

ii. Operating – Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iii. Operating – Bank as a lessor

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

3. Summary of accounting policies (continued)

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement). Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated impairment allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the impairment allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of profit and loss (the consolidated income statement).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement).

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated statement of profit and loss (the consolidated income statement).

Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

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

Renegotiated loans

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

The accounting treatment of such renegotiation is as follows:

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Asset management

The Bank acts as an asset manager in respect of certain funds related to construction financing. The Bank acts as an agent in these arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management industry. Accordingly, the Bank does not incur any liability relating to the funds under management. These funds under management do not comprise legal entities under the laws of Ukraine and the management of these funds is administered by the Bank. The funds are held in current accounts in the Bank until such time as they are invested in eligible assets which meet the investment requirements of these funds.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Financial guarantees

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Financial guarantees (continued)

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

Taxation

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

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

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

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

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

Property and equipment

Equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

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

Following initial recognition at cost, buildings and land are subsequently carried at their revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the property revaluation reserve which is included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of profit and loss (the consolidated income statement), in which case the increase is recognised in the consolidated statement of profit and loss (the consolidated income statement). A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the property revaluation reserve.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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

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

Leasehold improvements (refurbishment costs for premises under lease contract) are depreciated over a period not exceeding the leasing period.

The asset’s residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation.

Intangible assets

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

Investment property

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

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. Market value of the Bank’s investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property in similar locations and categories.

Assets held for sale

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

The prospective sale is deemed feasible if the Bank’s management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan has been initiated. Furthermore, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Provision

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other benefit obligations

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

Segment reporting

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

Contingencies

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

Recognition of income and expense

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

Interest and similar income and expense

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Commission income

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

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Recognition of income and expense (continued)

► *Fee income from providing transaction services*

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

Dividend income

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

Foreign currency translation

The consolidated financial statements are presented in Ukrainian Hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss (the consolidated income statement) as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2016 and 2015 were UAH 27.1909 and UAH 24.0007 to 1 US dollar and UAH 28.4226 and UAH 26.2231 to 1 euro, respectively.

Future changes in accounting policies

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later. The Bank has not adopted early any of these new standards and interpretations .

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

The allowance is based on the expected credit losses 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 would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings.

The standard is expected to have a significant impact on the Bank's loan impairment provisions. The Bank is currently assessing the impact of the new standard on its financial statements.

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

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

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

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The Bank is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes.The Bank is currently assessing the impact of the amendments on its consolidated financial statements.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017.

The Bank is currently assessing the impact of the amendment on its consolidated financial statements.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments 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.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. 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. Early application is permitted. The Bank is currently assessing the impact of the amendment on its consolidated financial statements.

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 the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

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 Bank is currently assessing the impact of the amendment on its consolidated financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

Transfers of Investment Property - Amendments to IAS 40

The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

The Bank is currently assessing the impact of the amendment on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's consolidated financial statements.

4. Significant accounting judgements and estimates

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

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 1,843,242 thousand and UAH 4,555,081 thousand (2015: UAH 1,449,840 thousand and UAH 4,084,821 thousand), respectively. The Bank increased or decreased by 10% probability of default (PD) for each individual customer and calculated deviation (increase or decrease) of the impairment provision compared to the actual provision in the calculation of the above provision sensitivity to changes in actual loss experience compared to the estimated. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred income tax assets

The recognised deferred tax asset in the amount of UAH 2,322,000 thousand (31 December 2015: UAH 1,730,750 thousand) represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position (consolidated balance sheet). Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a 3-year business plan and forecast for 2020-2021, prepared by management. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the management expectations include stabilisation of the economy of Ukraine together with the recovery of the whole banking sector's profitability in 2017, as well as moderate growth in loan portfolio and reduced loan loss provisions charges due to the expected improvement in the economy.

(thousands of Ukrainian hryvnia, unless otherwise stated)

4. Significant accounting judgements and estimates (continued)

Deferred income tax assets (continued)

Taking into account planned future profits for 2017-2021 and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

5. Segment information

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

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

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

Unallocated amounts include:

- Income tax receivables and payables, the share of assets and costs associated with the work of the Bank's TOP management, i.e. personnel performing general management functions at the level of the whole Bank's system and the Bank's staff, supporting directly the work of TOP management;
- The result of the revaluation of open currency position;
- The difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

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

During the twelve months ended 31 December 2016 and 2015, the Bank had revenues from transactions with a single external customer, that accounted for more than 10% of the total income of the Bank, of UAH 4,346,780 thousand (twelve months of the year 2015: UAH 3,371,185 thousand). Revenue from transactions with the external customer is reflected in the segment "Inter-bank and investments business".

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

Geografical information

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

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

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	462,408	7,679,379	5,538,624	–	13,680,411
Commission income	496,906	485,902	20,840	–	1,003,648
Other income	19,115	52,543	5,427	21,508	98,593
Net gains from foreign currencies	136,169	171,141	263,249	–	570,559
Net gains from precious metals	525	2	8,362	–	8,889
Net gains from investment securities designated at fair value through profit and loss	–	–	–	5,314,500	5,314,500
Reversal of allowance for loan impairment	67,765	–	–	–	67,765
Reversal of other impairment and provision	–	–	5,190	–	5,190
Gain on initial recognition of financial assets	–	–	16,344	–	16,344
Income from other segments	3,142,645	3,444,592	5,832,165	(12,419,402)	–
Total income	4,325,533	11,833,559	11,690,201	(7,083,394)	20,765,899
Interest expenses	(2,417,930)	(2,778,451)	(5,249,989)	–	(10,446,370)
Commission expense	(161,937)	(174,774)	(15,055)	(351)	(352,117)
Charge to allowance for loan impairment	–	(5,493,557)	(274,353)	–	(5,767,910)
Loss from foreign currencies	–	–	–	(3,535,056)	(3,535,056)
Loss from precious metals	–	–	–	(12,252)	(12,252)
Personnel expenses	(327,929)	(252,625)	(85,348)	(99,714)	(765,616)
Depreciation and amortisation	(57,506)	(29,463)	(7,009)	(8,773)	(102,751)
Other operating expenses	(464,135)	(281,510)	(34,030)	(61,481)	(841,156)
Charge for other impairment and provisions	(5,319)	(118,424)	–	(3,934)	(127,677)
Loss on initial recognition of financial assets	–	–	(7,350)	–	(7,350)
Expenses from other segments	(365,978)	(5,930,676)	(5,266,461)	11,563,115	–
Segment results	524,799	(3,225,921)	750,606	758,160	(1,192,356)
Income tax credit					215,050
Loss for the period					(977,306)
Assets and liabilities as at 31 December 2016					
Segment assets	4,897,657	58,936,051	93,890,451		157,724,159
Unallocated assets				2,678,070	2,678,070
Total assets					160,402,229
Segment liabilities	34,059,319	52,575,312	68,328,691		154,963,322
Unallocated liabilities				78,641	78,641
Total liabilities					155,041,963
Other segment information					
Capital expenditure	(35,403)	(16,382)	(3,901)	(4,883)	(60,569)

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2015:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	393,057	6,971,386	5,846,967	–	13,211,410
Commission income	424,391	658,165	20,034	–	1,102,590
Other income	19,083	54,260	20,971	11,289	105,603
Net gains from foreign currencies	237,507	172,539	652,525	–	1,062,571
Net gains from precious metals	458	–	8,849	–	9,307
Net gains from available-for-sale investment securities	–	–	32,871	–	32,871
Net gains from investment securities designated at fair value through profit and loss	–	–	–	3,886,182	3,886,182
Reversal of allowance for loan impairments	–	–	400,401	–	400,401
Reversal of other impairment and provisions	–	94,029	435,055	–	529,084
Income from other segments	3,386,431	3,166,995	6,126,478	(12,679,904)	–
Total income	4,460,927	11,117,374	13,544,151	(8,782,433)	20,340,019
Interest expenses	(2,681,316)	(2,531,140)	(5,605,783)	–	(10,818,239)
Commission expense	(120,668)	(260,753)	(10,573)	(51)	(392,045)
Loan impairment charge	(221,803)	(10,504,823)	–	–	(10,726,626)
Loss from foreign currencies	–	–	–	(7,008,178)	(7,008,178)
Loss from precious metals	–	–	–	(13,589)	(13,589)
Personnel expenses	(412,835)	(260,327)	(79,038)	(112,749)	(864,949)
Depreciation and amortisation	(69,431)	(25,447)	(4,355)	(6,706)	(105,939)
Other operating expenses	(359,124)	(456,452)	(35,162)	(114,941)	(965,679)
Loss from available-for-sale investment securities	–	(852,822)	(2,102,768)	–	(2,955,590)
Charge for other impairment and provisions	(29,504)	–	–	(511,541)	(541,045)
Loss on initial recognition of financial assets	–	(18,484)	(149)	–	(18,633)
Expenses from other segments	(328,477)	(7,469,872)	(6,062,729)	13,861,078	–
Segment results	237,769	(11,262,746)	(356,406)	(2,689,110)	(14,070,493)
Income tax credit					6,721
Loss for the period					(14,063,772)
Assets and liabilities as at 31 December 2016					
Segment assets	4,746,994	56,142,419	78,222,914		139,112,327
Unallocated assets				2,236,185	2,236,185
Total assets					141,348,512
Segment liabilities	32,198,018	47,560,991	64,580,236		144,339,245
Unallocated liabilities				69,606	69,606
Total liabilities					144,408,851
Other segment information					
Capital expenditure	(28,582)	(8,220)	(1,470)	(2,264)	(40,536)

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

The major part of the fair value gain from investment securities designated at fair value through profit or loss for twelve months of 2016 and 2015 is attributable to revaluation of government bonds indexed according to changes in the foreign exchange rate.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2016	*31 December 2015*
Current accounts with other credit institutions	8,884,608	9,593,295
Current account with the National Bank of Ukraine	5,372,785	2,184,195
Deposits certificates of the National Bank of Ukraine up to 90 days	4,006,865	6,255,946
Overnight deposits with other credit institutions	1,894,306	4,265,831
Cash on hand	1,219,953	1,109,948
Time deposits with credit institutions up to 90 days	–	831,964
Cash and cash equivalents	21,378,517	24,241,179

As at 31 December 2016 included in current accounts with other credit institutions is UAH 7,793,665 thousand, placed on current accounts with five OECD banks (31 December 2015: UAH 8,863,054 thousand, placed on current accounts with five OECD banks). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

As at 31 December 2016 overnight deposit in amount of UAH 1,894,306 thousand was placed with one OECD bank under market interest rate (31 December 2015: UAH 4,265,831 thousand was placed with one OECD bank).
Ukrainian banks are required to keep mandatory reserves on a correspondent account with the National Bank Ukraine. Since January 2015, the amount of mandatory reserves that should be kept at the beginning of each operational day on a correspondent account with the National Bank of Ukraine should be no less than 40% of the reserve base (representing the average arithmetic sum of funds calculated for the period of determination in accordance with the mandatory reserve requirements for that period) that is calculated for the relevant period of allowance.

As at 31 December 2016 and 2015 the Bank meets all the NBU’s mandatory reserve requirements.

Financing and investing transactions for the year ended 31 December 2016 that did not require the use of cash and cash equivalents, comprised of issuance of ordinary shares in exchange of government investment securities of UAH 9,318 ,999 thousand , were excluded from the consolidated statement of cash flows.

(thousands of Ukrainian hryvnia, unless otherwise stated)

7. Due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2016	*31 December 2015*
Loans and deposits	2,268,771	4,525,511
Current accounts with other credit institutions in precious metals	121,567	106,968
Other amounts due from credit institutions	3	10
	2,390,341	4,632,489
Less – allowance for impairment	(845,865)	(548,746)
Due from credit institutions	1,544,476	4,083,743

As at 31 December 2016, loans and deposits due from credit institutions include UAH 562,063 thousand of security deposits, placed mainly in respect of customers’ transactions, such as letters of credit, performance guarantees and transactions with travellers’ cheques (31 December 2015: UAH 229,419 thousand).

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

	Loans and deposits
At 1 January 2015	118,983
Charge	415,941
Translation differences	13,822
At 31 December 2015	548,746
Charge	272,888
Translation differences	24,231
At 31 December 2016	845,865

8. Loans to customers

Loans to customers comprise:

	31 December 2016	*31 December 2015*
Commercial loans	103,403,198	95,509,668
Overdrafts	456,206	273,354
Financial lease receivables	94,664	143,547
Promissory notes	66,270	21,545
	104,020,338	95,948,114
Less– allowance for impairment	(45,550,807)	(40,848,211)
Loans to customers	58,469,531	55,099,903

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Loans to customers (continued)

Allowance for impairment of loans to customers

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

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

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 1 January 2015	23,164,123	5,444	17,238	304	23,187,109
Charge/(reversal) for the year	9,891,540	18,101	498	145	9,910,284
Recoveries	5,475	–	–	–	5,475
Amounts written-off	(9,739)	–	–	–	(9,739)
Translation differences	7,754,711	371	–	–	7,755,082
At 31 December 2015	40,806,110	23,916	17,736	449	40,848,211
Individual impairment	38,802,056	4,237	17,736	–	38,824,029
Collective impairment	2,004,054	19,679	–	449	2,024,182
	40,806,110	23,916	17,736	449	40,848,211
Gross amount of loans, individually determined to be impaired, before deducting any impairment allowance	57,213,119	20,558	27,147	–	57,260,824

Individually impaired loans

As at 31 December 2016 interest income on loans, for which individual impairment has been recognised, amounts to UAH 5,766,545 thousand (2015: UAH 3,481,235 thousand).

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

Collateral and other credit enhancements

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

The main types of collateral obtained are as follows:

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

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2015, loans to customers with a carrying value of UAH 5,088,445 thousand are pledged as collateral under loans received from the NBU (Note 16).

As at 31 December 2016, UAH 445,349 of customers deposts are pledged as collateral for loans to customers (31 December 2015: UAH 912,330 thousand) (Note 18).

Concentration of loans to customers

As at 31 December 2016, the Bank has a concentration of loans represented by UAH 46,472,276 thousand due from the ten largest borrowers (44.68% of gross loan portfolio) (31 December 2015: UAH 39,944,601 thousand or 41.63%). An allowance of UAH 19,694,698 thousand has been recognised against these loans (31 December 2015: UAH 15,330,275 thousand).

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

	31 December 2016	*31 December 2015*
Private entities	82,390,783	76,228,940
State entities	20,039,806	18,158,597
Individuals	1,333,388	1,303,048
Municipal and utility entities	256,361	257,529
	104,020,338	95,948,114

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

	31 December 2016	*%*	*31 December 2015*	*%*
Agriculture and food industry	18,717,772	18.0	16,779,746	17.5
Extractive industry	12,316,626	11.8	10,984,005	11.4
Trade	11,744,970	11.3	11,303,278	11.8
Chemical industry	9,737,760	9.4	8,827,769	9.2
Real estate	8,699,429	8.4	8,846,650	9.2
Mechanical engineering	7,665,099	7.4	6,475,345	6.7
Metallurgy	6,203,129	6.0	5,561,073	5.8
Construction	6,126,703	5.9	4,771,851	5.0
Power engineering	5,251,422	5.0	2,614,353	2.7
Production of construction materials	4,338,374	4.2	3,973,268	4.1
Hotels and restaurant	4,337,384	4.2	3,596,452	3.7
Production of rubber and plastic goods	2,623,755	2.5	4,361,864	4.5
Transport and communications	2,032,035	1.9	1,911,787	2.0
Individuals	1,333,388	1.3	1,303,048	1.4
Pulp and paper industry	904,725	0.9	1,033,578	1.1
Finance	418,232	0.4	453,280	0.5
Wood processing	252,426	0.2	220,159	0.2
Health protection	245,410	0.2	239,892	0.3
Professional, scientific and technical activity	191,894	0.2	171,104	0.2
Light industry	185,233	0.2	493,310	0.5
Metal processing	154,732	0.1	158,885	0.2
Road construction	–	–	1,053,974	1.1
Other	539,840	0.5	813,443	0.9
	104,020,338	100	95,948,114	100

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2016, "Other" category included loans issued to customers, which are registered in the free economic zone of the Crimea in amount of UAH 267,477 thousand (31 December 2015: UAH 269,260 thousand) with UAH 267,477 thousand of allowance for impairment provided for these loans (31 December 2015: UAH 260,217 thousand).

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

	2016	*2015*
Gross investment in finance leases, receivable:		
Less than 1 year	61,286	84,653
From 1 to 5 years	63,669	118,371
	124,955	203,024
Unearned future finance income on finance leases	(30,291)	(59,477)
Net investment in finance leases	94,664	143,547

	2016	*2015*
Net investment in finance leases, receivable:		
Less than 1 year	42,497	56,470
From 1 to 5 years	52,167	87,077
Net investment in finance leases	94,664	143,547

9. Investment securities

As at 31 December 2016 and 2015, investment securities designated at fair value through profit and loss represented Ukrainian state bonds, principal of which will be indexed according to increases in the average interbank exchange rate of Hryvnia to United States dollar per month, prior to the month of issue, and the average exchange rate of Hryvnia to United States dollar per month, prior to maturity month. The Bank decided not to separate an embedded derivative instrument and to evaluate an instrument as a whole at its fair value, recognising revaluation through profit or loss.

Available-for-sale investment securities comprise:

	31 December 2016	*31 December 2015*
Ukrainian state bonds	46,163,120	37,163,276
Corporate bonds	2,018,739	2,388,565
Corporate shares	11,690	11,690
Municipal entities	–	1,628,039
Available-for-sale investments	48,193,549	41,191,570

As at 31 December 2015, available-for-sale investment securities with a carrying value of UAH 3,620,028 thousand are pledged as collateral under loans received from the NBU (Note 16).

Held-to-maturity investment securities comprise the following:

	31 December 2016		*31 December 2015*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
Ukrainian state bonds	147,246	139,098	248,483	230,912
Held-to-maturity investments		139,098		230,912

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Investment property

The movements of investment property are as follows:

	2016	*2015*
Investment property as at 1 January	1,566,942	1,986,087
Additions	12,306	–
Transfer from owner occupied property	–	3,794
Transfer to owner occupied property	(13)	–
Disposals	(74,551)	(530)
Net loss from fair value remeasurement	(160,610)	(422,409)
Investment property as at 31 December	1,344,074	1,566,942

In 2016, the Bank sold an investment property item with a gain of UAH 2,916 thousand (2015: UAH 185 thousand).

In 2016 the Bank revalued its investment property. The valuation was performed by internal appraiser specialist who has appropriate professional qualifications and years of experience in valuation of similar properties in Ukraine. The valuation basic approach applied was the comparative approach, which based on the analysis of information on sale prices (offerings) for similar assets, which authenticity is not in doubt by the appraiser, as adjusted for specific characteristics for a property being valued. The key characteristics of similar assets are location, physical and functional characteristics, sale conditions and others. The following assumptions were applied:

- A supply and demand assumption, reflecting the correlation of supply and demand for similar assets. Under this assumption, fluctuations in market prices for similar assets are considered in valuation.
- A substitution assumption, reflecting that an asset is not to be paid at a greater price than the minimum price of a property of similar economic value currently being sold at the market.

In 2016, the Bank recognised the result from fair value remeasurement of investment property in the amount of UAH 160,610 thousand in other operating expenses (2015: UAH 422,409 thousand).

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

	31 December 2016	*31 December 2015*
Less than 1 year	19,384	19,712
From 1 to 5 years	8,205	17,951
Future minimum receivables under non-cancellable operating lease	27,589	37,663

During 2016 the Bank has recognised rental income of UAH 31,082 thousand (2015: UAH 34,305 thousand), included in other income in the consolidated statement of profit and loss (the consolidated income statement).

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Property and equipment

The movements of property and equipment were as follows:

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

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construc-tion in progress*	*Total*
Cost or revalued amount							
At 31 December 2014	1,873,417	12,314	420,141	212,790	28,831	138,088	2,685,581
Additions	–	–	8,597	14,911	–	2,443	25,951
Disposals	(20)	(690)	(3,608)	(1,123)	–	(155)	(5,596)
Transfer to investment property	–	–	–	–	–	(3,794)	(3,794)
Transfers	3,349	653	–	–	–	(4,002)	–
At 31 December 2015	1,876,746	12,277	425,130	226,578	28,831	132,580	2,702,142
Accumulated depreciation							
At 31 December 2014	–	(9,939)	(268,275)	(135,918)	(19,806)	–	(433,938)
Charge for the year	(31,511)	(1,591)	(45,823)	(17,456)	(3,739)	–	(100,120)
Disposals	20	676	1,421	743	–	–	2,860
At 31 December 2015	(31,491)	(10,854)	(312,677)	(152,631)	(23,545)	–	(531,198)
Net book value							
At 31 December 2014	1,873,417	2,375	151,866	76,872	9,025	138,088	2,251,643
At 31 December 2015	1,845,255	1,423	112,453	73,947	5,286	132,580	2,170,944

As at 31 December 2016, buildings, leasehold improvements and other items of property, plant and equipment include assets with a cost or revalued amount of UAH 311,648 thousand which are fully depreciated (31 December 2015: UAH 276,792 thousand). These assets are still used by the Bank.

As at 31 December 2016, the Bank had capital commitments for the acquisition of property, plant and equipment of UAH 5,970 thousand (31 December 2015: UAH 6,108 thousand).

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

As at 1 March 2016 and 1 August 2016, as a result of the Bank's fair value testing of the buildings no significant deviations from their carrying value of such items were found.

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Property and equipment (continued)

In 2014, the Bank revalued its buildings. Revaluation was performed by independent appraisers as at 31 December 2016 and fair value was determined by comparative, income and expense methods taking into account market information.

If the buildings were reported at cost, the carrying value would be as follows:

	31 December 2016 (revalued)	*31 December 2016 (at cost)*	*31 December 2015 (revalued)*	*31 December 2015 (at cost)*
Cost	1,878,618	1,039,055	1,876,746	1,037,183
Accumulated depreciation	(62,768)	(164,996)	(31,491)	(152,119)
Residual value	1,815,850	874,059	1,845,255	885,064

12. Intangible assets

The movements of intangible assets were as follows:

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

	Computer software and licences
Cost	
At 31 December 2014	60,229
Additions	9,324
Disposals	(4,768)
At 31 December 2015	64,785
Accumulated depreciation	
At 31 December 2014	(46,151)
Charge for the year	(5,819)
Disposals	4,769
At 31 December 2015	(47,201)
Net book value	
At 31 December 2014	14,078
At 31 December 2015	17,584

(thousands of Ukrainian hryvnia, unless otherwise stated)

12. Intangible assets (continued)

As at 31 December 2016, intangible assets include assets with a cost of UAH 39,923 thousand which have been fully amortised (31 December 2015: UAH 33,200 thousand). These assets are still used by the Bank.

As at 31 December 2016, the Bank had capital commitments for the acquisition of intangible assets of UAH 10,569 thousand (31 December 2015: UAH 13,951 thousand).

13. Income tax

The corporate income tax charge comprises:

	2016	*2015*
Current tax charge	(376,200)	(416,750)
Deferred tax credit	591,250	423,471
Income tax credit	215,050	6,721

As at 31 December 2016, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 18% (31 December 2015: 18%).

Income tax assets and liabilities consist of the following:

	31 December 2016	*31 December 2015*
Current tax assets	101,677	293,122
Deferred income tax assets	2,322,000	1,730,750
Income tax assets	2,423,677	2,023,872

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

	2016	*2015*
Loss before tax	1,192,356	14,070,493
Statutory tax rate	18%	18%
Income tax credit at the statutory rate	214,624	2,532,689
Changes in unrecognised deferred tax asset	34,110	(331,652)
Non-deductible expenditures	(33,684)	(94,381)
Revision of temporary difference due to the changes in tax laws	–	(2,099,935)
Income tax credit	215,050	6,721

(thousands of Ukrainian hryvnia, unless otherwise stated)

13. Income tax (continued)

Deferred tax assets and liabilities include:

	1 January 2015	Origination and reversal of temporary differences: In the consolidated statement of profit and loss (in the consolidated income statement)	Origination and reversal of temporary differences: In the consolidated statement of comprehensive income	31 December 2015	Origination and reversal of temporary differences: In the consolidated statement of profit and loss (in the consolidated income statement)	Origination and reversal of temporary differences: In the consolidated statement of comprehensive income	31 December 2016
Tax effect of deductible temporary differences:							
Allowance for impairment of assets and liabilities	1,400,518	1,463,259	–	2,863,777	(162,846)	–	2,700,931
Accruals	173	(173)	–	–	–	–	–
Valuation of financial instruments	683,779	(704,823)	101,042	79,998	(1)	(12,260)	67,737
Accrued interest on the debt (financial liabilities)	–	–	–	–	717,822	–	717,822
Other assets	–	2,257	–	2,257	1,077	–	3,334
Deferred income tax asset	2,084,470	760,520	101,042	2,946,032	556,052	(12,260)	3,489,824
Tax effect of taxable temporary differences:							
Property, equipment and intangible assets	(56,165)	(9,405)	–	(65,570)	1,088	–	(64,482)
Other assets/liabilities	(4,008)	4,008	–	–	–	–	–
Deferred tax liabilities	(60,173)	(5,397)	–	(65,570)	1,088	–	(64,482)
Unrecognised deferred tax asset	(717,018)	(331,652)	(101,042)	(1,149,712)	34,110	12,260	(1,103,342)
Net deferred tax assets	1,307,279	423,471	–	1,730,750	591,250	–	2,322,000

The Bank does not recognise deferred tax asset in the full amount and created respective provision for deferred tax asset as at 31 December 2016. For the information on the professional judgements of the management applied to the recognition of deferred tax assets refer to Note 4.

14. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Other assets	*Guarantees and commitments*	*Total*
At 1 January 2015	230,695	400	231,095
Charge/(reversal)	20,812	(8,851)	11,961
Translation differences	4,898	30,664	35,562
Amounts written-off	(1,101)	–	(1,101)
At 31 December 2015	255,304	22,213	277,517
Charge/(reversal)	140,550	(18,063)	122,487
Translation differences	4,604	987	5,591
Amounts written-off	(50)	–	(50)
At 31 December 2016	400,408	5,137	405,545

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

15. Other assets and liabilities

Other assets comprise:

	31 December 2016	*31 December 2015*
Other financial assets		
Other accrued income	328,429	29,106
Receivables on transactions with customers	211,404	210,074
Transit accounts in respect of card operations	138,880	163,371
Service fee on financial guarantees issued	10,208	202,107
Other	120	-
	689,041	604,658
Less: allowance for impairment (Note 14)	(333,326)	(200,476)
Other financial assets	355,715	404,182
Other assets		
Tax assets, other than income tax	259,989	277,925
Prepayments	50,025	53,087
Precious metals	42,477	62,587
Cash and cash equivalents, which existence is not confirmed	33,913	30,740
Inventories	21,127	21,425
Other	1,583	2,135
	409,114	447,899
Less: allowance for impairment (Note 14)	(67,082)	(54,828)
Other assets	342,032	393,071
Total other assets	697,747	797,253

As at 31 December 2016, prepayments include balances of UAH 7,344 thousand (31 December 2015: UAH 8,648 thousand) in respect of the acquisition of property, equipment and intangible assets, and balances of UAH 4,333 thousand (31 December 2015: UAH 4,775 thousand) in respect of the construction of branch premises.

Other liabilities comprise:

	31 December 2016	*31 December 2015*
Other financial liabilities		
Transit accounts in respect of card operations	26,480	30,963
Liabilities in respect of financial guarantees issued	7,043	5,895
Transit accounts on transactions with customers	6,685	6,688
Accrued expenses	6,645	42,735
Other financial liabilities	46,853	86,281
Other liabilities		
Provision for unused vacation	61,161	68,476
Payables to Guarantee Fund of Individuals’ Deposits	54,046	52,875
Taxes payable other than income tax	32,804	44,116
Deferred income	26,675	12,922
Accrued salary payable	22,693	24,504
Accounts payable	9,106	2,228
Accrued pension contribution	885	830
Other	4,023	155
Other liabilities	211,393	206,106
Total other liabilities	258,246	292,387

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Amounts due to the National Bank of Ukraine

Amounts due to the National Bank of Ukraine as at 31 December 2016 comprise:

	31 December 2016	*31 December 2015*
Correspondent account	659	1,948
Loans due to the National Bank of Ukraine	–	2,977,827
Amounts due to the National Bank of Ukraine	659	2,979,775

In July 2016 "UkrEximBank" early repaid the full amount of loans due to the National Bank of Ukraine with maturity date in June 2020.

As at 31 December 2015, loans due to the National Bank of Ukraine comprised:

Origination date	*Maturity date*	*Type of interest rate*	*Effective interest rate*	*Carrying value*
19 March 2009	10 June 2020	Fixed rate	20%	1,233,266
19 March 2009	10 June 2020	Fixed rate	20%	1,744,561
Amounts due to the National Bank of Ukraine				2,977,827

These loans are initially recognised at fair value, which was based on the market data at the date of recognition.

Loans due to the NBU are secured with loans to customers (Note 8) and investment securities (Note 9).

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2016	*31 December 2015*
Loans due to international financial organisations	21,878,151	14,045,679
Loans and deposits due to other banks	3,506,844	4,100,747
Current accounts	2,545,460	1,152,421
Other amounts due to credit institutions	274	23
Amounts due to credit institutions	27,930,729	19,298,870
Held as security against guarantees (Note 22)	24,528	29,705

As at 31 December 2016, included in current accounts is UAH 1,626,852 thousand received from five Ukrainian banks (31 December 2015: UAH 539,387 thousand received from five Ukrainian banks). The amount was received under normal banking terms and conditions.

As at 31 December 2016, included in amounts due to credit institutions is UAH 2,661,207 thousand received from Ukrainian banks (31 December 2015: UAH 1,390,022 thousand).

As at 31 December 2016, loans and deposits due to other banks and loans due to international financial organisations include UAH 619,938 thousand and UAH 55,457 thousand received from OECD banks and international financial organisations, respectively, under the trade and export financing agreements (31 December 2015: UAH 1,046,260 thousand and UAH 569,333 thousand respectively). These loans are denominated in US dollars and euros and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under the respective trade and export financing programmes.

(thousands of Ukrainian hryvnia, unless otherwise stated)

17. Amounts due to credit institutions (continued)

As at 31 December 2016 international financial institutions loans include loans from the International Bank for Reconstruction and Development (IBRD) within the Second Project of Export Development and Additional Financing for the Second Project of Export Development totalling UAH 6,090,065 thousand (31 December 2015: UAH 5,437,942 thousand). The total amount of these loans under the loan agreements is USD 304,500 thousand. These loans are denominated in US dollars received by the Bank with interest rate of LIBOR + spread IBRD, which is reviewed twice a year, and have a current interest rate: 1.66% and 1.87%, maturing in 2026 and 2041 respectively.

Loans from international financial institutions also include loans from the IBRD for the Project on Energy Efficiency in the amount of UAH 4,454,935 thousand (31 December 2015: UAH 2,473,662 thousand). The total amount of this loan under the loan agreement is USD 200,000 thousand. The loan is denominated in US dollars with an interest rate of LIBOR + spread IBRD, which is reviewed twice a year, with the current interest rate: 1.87%, the loan matures in 2040.

International financial institutions loans include loans from the European Bank for Reconstruction and Development ("EBRD") within the Energy Efficiency Programs in Ukraine totalling UAH 456,627 thousand (31 December 2015: UAH 807,971 thousand). These loans are denominated in US dollars and maturing in 2017, have floating interest rates LIBOR + spread EBRD, which is reviewed twice a year, with the current interest rate 7.55378%.

Loans from international financial institutions also include loans from the European Investment Bank ("EIB") within the "UkrEximBank" Loan for SMEs and Mid-Caps totalling UAH 3,730,995 thousand (31 December 2015: UAH 3,289,579 thousand). The total amount of these loans under the loan agreement is equivalent of EUR 100,000 thousand. These loans are denominated in US dollars and maturing in 2023, have floating interest rates for each tranche: LIBOR + spread EIB, which is reviewed twice a year, with the current interest rate: 4.76822% and 4.836% respectively.

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

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

18. Amounts due to customers

Amounts due to customers comprise:

	31 December 2016	*31 December 2015*
Current accounts		
- Legal entities	17,638,612	13,526,606
- Budget financed organisations	4,424,952	4,699,932
- Individuals	3,516,537	3,002,802
- Funds under the Bank's management	8,077	13,718
	25,588,178	21,243,058
Time deposits		
- Legal entities	39,218,415	36,643,285
- Individuals	20,982,359	21,431,600
	60,200,774	58,074,885
Amounts due to customers	85,788,952	79,317,943
Held as security against letters of credit (Note 22)	979,840	444,464
Held as security against guarantees and avals (Note 22)	446,921	535,733
Held as security against loans to customers (Note 8)	445,349	912,330
Held as security against undrawn loan commitments (Note 22)	1,805	1,978

As at 31 December 2016, legal entities current accounts included funds of top ten customers in the amount of UAH 5,040,774 thousand (28.6% of legal entities current accounts) (31 December 2015: UAH 3,470,838 thousand, or 25.7%).

(thousands of Ukrainian hryvnia, unless otherwise stated)

18. Amounts due to customers (continued)

As at 31 December 2016, individuals' current accounts included funds of top ten customers in the amount of UAH 82,185 thousand (2.3% of individuals' current accounts) (31 December 2015: UAH 77,529 thousand, or 2.6%).

As at 31 December 2016, term deposits of legal entities included funds raised from five customers – legal entities in the amount of UAH 28,550,148 thousand (72.8% of term deposits of legal entities) (31 December 2015: UAH 27,045,620 thousand, or 73.8%).

As at 31 December 2016, term deposits of individuals included funds raised from ten individuals in the amount of UAH 1,312,666 thousand (6.3% of term deposits of individuals) (31 December 2015: UAH 1,523,604 thousand, or 7.1%).

As at 31 December 2016, term deposits of legal entities included funds raised in gold, which are accounted for at fair value through profit or loss in the amount to UAH 13,624 thousand (31 December 2015: UAH 15,322 thousand).

As at 31 December 2016, term deposits of individuals included funds raised in gold, which are accounted at fair value through profit or loss in the amount to UAH 82,181 thousand (31 December 2015: UAH 142,425 thousand).

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

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

	31 December 2016	*%*	*31 December 2015*	*%*
Agriculture and food industry	29,167,421	34.0	27,263,219	34.4
Individuals	24,498,896	28.6	24,434,402	30.8
Trade	7,018,218	8.2	6,234,324	7.9
Budget organizations	4,424,952	5.2	4,699,932	5.9
Mechanical engineering	3,364,349	3.9	1,896,796	2.4
Transport and communications	2,558,458	3.0	2,086,555	2.6
Professional, scientific and technical activities	2,344,970	2.7	2,003,401	2.5
Finance	2,161,779	2.5	1,820,697	2.3
Construction	1,254,642	1.5	1,259,118	1.6
Chemical industry	901,909	1.1	421,939	0.5
Metal processing	849,841	1.0	446,645	0.6
Information and telecommunications	759,109	0.9	779,643	1.0
Production of construction materials	750,354	0.9	219,211	0.3
Power engineering	728,272	0.7	1,130,043	1.4
Real estate	564,285	0.7	365,163	0.5
Metallurgy	444,476	0.5	122,606	0.2
Extractive industry	394,394	0.5	527,598	0.7
Processing	306,911	0.4	344,104	0.4
Health protection	302,412	0.3	160,222	0.2
Wood processing	204,238	0.2	251,457	0.3
Education	187,823	0.2	99,314	0.1
Personal services	180,711	0.2	154,244	0.2
Production of rubber and plastic goods	85,669	0.1	313,646	0.4
Pulp and paper industry	83,619	0.1	92,645	0.1
Light industry	75,063	0.1	94,774	0.1
Hotels and restaurants	51,821	0.1	99,974	0.1
Other	2,124,360	2.4	1,996,271	2.5
Amounts due to customers	85,788,952	100	79,317,943	100

(thousands of Ukrainian hryvnia, unless otherwise stated)

18. Amounts due to customers (continued)

Funds under the Bank's management

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

	2016	*2015*
At 1 January	13,718	17,055
Funds attracted from individuals	50,547	52,889
Invested funds	(56,188)	(56,226)
At 31 December	8,077	13,718

19. Eurobonds issued

	31 December 2016		*31 December 2015*	
	Nominal value (thousand of USD)	*Carrying value*	*Nominal value (thousand of USD)*	*Carrying value*
April 2010 issue	500,000	13,786,149	500,000	12,158,478
October 2010 issue	250,000	6,893,074	250,000	6,079,239
January 2013 issue	500,000	14,069,268	500,000	12,403,814
April 2013 issue	100,000	2,813,854	100,000	2,480,763
Eurobonds issued		37,562,345		33,122,294

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

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

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

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

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

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

19. Eurobonds issued (continued)

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

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

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

All Eurobonds issued are subject to various covenants and restrictions (Note 22).

20. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 2,583,132 thousand) from Credit Suisse International. Carrying value of the loan was UAH 2,656,880 thousand as at 31 December 2016 (2015: UAH 2,338,461 thousand). This loan was funded by 8.4% loan participation notes issued on a limited recourse basis by Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. The loan matures in February 2016. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 815,726 thousand) from Credit Suisse International. Carrying value of the loan was UAH 839 015 thousand as at 31 December 2016 (2015: UAH 738,461 thousand). This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the securities issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

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

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

- starting from 9 August 2015 the interest rate was changed to 7% p.a. + 6-months Libor rate (8.16070% as at 31 December 2016);
- maturity date was rescheduled to 9 February 2023 with 50% of the loan payable on 9 February 2020 and the remaining part of the loan payable in six equal semi-annual payments, starting on 9 August 2020, and to 9 February 2023.

In May 2009, the Bank obtained a loan amounting to USD 250,000 thousand from the EBRD. The carrying value of the loan was UAH 6,298,447 thousand as at 31 December 2015. The loan should have been matured in May 2019. Interest rate was fixed for the first five years and comprised 13.21% per annum. Starting from 28 July 2014 and for the next five years the interest rate was set as floating per agreement terms and comprised 12% + 6-month LIBOR. On 29 July 2016 the EBRD and the Bank completed a conversion of this subordinated debt into a loan of USD 200 000 thousand, with early redemption of the remaining part of this debt in amount of USD 50 000 thousand.

Subordinated debts are subject to various covenants and restrictions (Note 22).

(thousands of Ukrainian hryvnia, unless otherwise stated)

21. Equity

As at 31 December 2016, the Bank's authorised issued share capital comprised 21,208,750 (31 December 2015: 14,834,780) ordinary shares with a nominal value of UAH 1,462.04 per share (31 December 2015: 1,462.04 per share). As at 31 December 2016, 21,208,750 shares were fully paid and registered (31 December 2015: all shares were fully paid and registered).

In January 2016, according to the Resolution of the Cabinet of Ministers of Ukraine No 33 dated 27 January 2016 the Bank's share capital was increased by UAH 9,318,999 thousand through issue of 6,373,970 new shares with nominal value of UAH 1,462.04 each with 100% of these shares kept by the State. In April 2016 these shares were registered.

The State of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state indexed bonds with the nominal value of UAH 9,319,000 thousand with 10-year maturity and interest rate of 6% p.a.

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
At 1 January 2015	11,414,901	16,689,042	16,689,042
Shares issued	3,419,879	5,000,000	5,000,000
At 31 December 2015	14,834,780	21,689,042	21,689,042
Shares issued	6,373,970	9,318,999	9,318,999
At 31 December 2016	21,208,750	31,008,041	31,008,041

Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property revaluation reserve	*Unrealised gains/(losses) on investment securities available for sale*	*Revaluation reserves*
At 1 January 2015	1,058,890	196,705	1,255,595
Depreciation of revaluation reserve, net of tax	(18,627)	–	(18,627)
Net gains on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	–	(31,205)	(31,205)
Net unrealised losses on available-for-sale investment securities	–	(540,940)	(540,940)
At 31 December 2015	1,040,263	(375,440)	664,823
Depreciation of revaluation reserve, net of tax	(18,400)	–	(18,400)
Net unrealised gains on available-for-sale investment securities	–	78,912	78,912
At 31 December 2016	1,021,863	(296,528)	725,335

Nature and purpose of revaluation reserves

Property revaluation reserve

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

21. Equity (continued)

Nature and purpose of revaluation reserves (continued)

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

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

Reserves and other funds of the Bank

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

The Bank's distributable reserves are determined by the amount of the reserves according to the Bank's accounts. As at 31 December 2016 the amount of non-distributable reserves was UAH 888,261 thousand (31 December 2015: UAH 827,749 thousand). Non-distributable reserves are represented by revaluation reserves and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

22. Commitments and contingencies

Operating environment

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include low levels of liquidity in the capital markets and the existence of restrictive currency controls which cause the national currency to be illiquid outside of Ukraine, and banking operations in Ukraine involve high risks that are not typical for developed markets.

The Ukrainian economy is open and vulnerable to changes at the global commodity and capital markets. The continued low level of commodity prices at the global markets, a loss of production facilities in the eastern part of the country, as well as further decline of economic cooperation with the Customs Union's countries have resulted in the reduction in the export volumes of commodities and services.

However, softening of military tensions in the eastern part of the country (in certain areas of the Donetsk and Lugansk regions) and also a stabilisation in the financial sector had a positive impact on the Ukrainian economy in 2016, that have reflected in the increase of such indicators as industrial production index and disposable income. First time since 2011, there was a growth in annual industrial production index of 2.8% as compared to preceding period, and, first time since 2013, there was a GDP growth of 2.3%.

At the same time, some volatility of the national currency exchange rate (as of 31 December 2016 the official NBU exchange rate of Hryvnia against US dollar was UAH 27.19 per USD 1, compared to UAH 24.00 per USD 1 as at 31 December 2015), with increased proportion of fixed costs in the structure of household consumption led to a further decline in domestic consumption. Thus, in 2016 the consumer inflation index fell to 12.4% (December 2016 to December 2015).

With economic situation in the country being stabilised, the NBU reduced interest borrowing rate six times (from 22% to 14%) and introduced some measures to liberalise currency control regulations.

Export deficit was offset by net inflows of foreign currency, mainly due to the increase in external government debt and the debt guaranteed by the government (in September next tranche under IMF EEF program was received), and net foreign investments, thus overall net foreign currency payment balance of Ukraine in 2016 remained in surplus.

Further recovery of the Ukrainian economy will be significantly impacted by geopolitical factors (results of the presidential and parliamentary elections in the USA, France, Germany will have a significant impact on the resolution of the conflict in the eastern part of the country and further international financing), external commodity markets conditions, and the policies and decisions of the Verhovna Rada, the Government, the NBU and the Administration of the President with regard to social and economic reforms.

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

At the same time, periodic escalations prevent the recovery of operations in the eastern part of the country of the Ukrainian banking system and the Bank, in particular.

A growth in non-performing loans, a high level of corporate debt and respective high risks is an obstacle to recover financing of the Ukrainian economy. Thus, a surplus in liquidity available within the banking system is invested most of the time into low risk financial instruments such as government securities.

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

Legal aspects

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

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly reduces with the passage of time.

Management believes that there is a risk of possible outflow of resources for certain transactions, which cannot be reliably estimated and will depend on the tax authorities' approach.

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Since 1 September 2013 transfer pricing rules came into force. These rules provide that in the case of transactions with related parties and, in some cases with unrelated parties (controlled operations) that are not at market value, entities should charge additional taxes. The Bank enters into controlled transactions solely at market prices. The Bank has implemented the necessary internal controls for compliance with the transfer pricing rules.

Financial commitments and contingencies

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

	31 December 2016	*31 December 2015*
Guarantees	3,748,869	5,866,577
Letters of credit	1,115,770	463,133
Undrawn loan commitments	273,651	181,127
Avals on promissory notes	117,620	34,184
	5,255,910	6,545,021
Less – provisions (Note 14)	(5,137)	(22,213)
Financial commitments and contingencies (before deducting collateral)	5,250,773	6,522,808
Less – cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Note 17, Note 18)	(1,453,094)	(1,011,880)
Financial commitments and contingencies	3,797,679	5,510,928

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

As at 31 December 2016, the Bank issued letters of credit of UAH 792,963 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 662,463 thousand (31 December 2015: UAH 418,043 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 399,374 thousand).

As at 31 December 2016, the Bank issued guarantees of UAH 2,827,304 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 164,326 thousand (31 December 2015: UAH 4,823,056 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 360,708 thousand).

As at 31 December 2016 undrawm loan commitments for plastic cards amounted to UAH 184,137 thousand (31 December 2015: UAH 182,595 thousand).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank (capital adequacy, liquidity, credit risks). The benchmarks for such covenants are set per the terms of the agreements, other documents agreed upon by the parties of the agreements, with a reference to the international and local regulatory requirements. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

23. Net commission income

Net commission income comprises:

	2016	*2015*
Commission income		
Cash and settlement service	599,419	547,741
Guarantees and letters of credit	251,669	417,850
Operations with banks	115,363	98,239
Credit servicing commission	12,329	13,028
Other	24,868	25,732
	1,003,648	1,102,590
Commission expense		
Cash and settlement service	(254,699)	(189,825)
Guarantees and letters of credit	(88,938)	(195,103)
Currency conversion	(3,013)	(3,835)
Other	(5,467)	(3,282)
	(352,117)	(392,045)
Net commission income	651,531	710,545

(thousands of Ukrainian hryvnia, unless otherwise stated)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2016	*2015*
Salaries and bonuses	640,965	661,462
Charges on payroll	124,651	203,487
Personnel expenses	765,616	864,949
Payables to Guarantee Fund of Individuals' Deposits	222,226	210,813
Loss on fair value remeasurement for investment property	160,610	422,409
Repair and maintenance expenses	104,526	81,670
Operating taxes	104,225	30,694
Security	34,309	26,398
Occupancy cost	34,101	29,105
Legal and advisory services	28,244	18,683
Rent cost	27,026	26,455
Electronic and data processing costs	26,037	23,777
Expenses for cash collection	25,907	25,134
Household expenses	18,160	17,848
Communications	13,106	9,250
Business travel and related expenses	6,624	7,898
Marketing and advertising	6,326	7,342
Expenses related to representative offices	4,511	7,295
Charity	1,619	7,474
Other	23,599	13,434
Other operating expenses	841,156	965,679

Expenses for payment to the non-state pension fund in 2016 comprised UAH 10,145 thousand (2015: UAH 10,142 thousand).

25. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the Risk management process. The risk management process makes a crucial contribution in ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for adhering to the risk management rules and procedures in the course of fulfilling their tasks and duties.

The Bank adheres to the following key risk management principles:

- Centralisation of liquidity, interest and currency risk management at the Head Office level;
- Unification of analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating and rules for creating allowance for loan impairment across all branches of the Bank;
- Clear definition of the roles of all participants in the risk management process and the interrelations among those participants;
- Definition of risk limits for transaction volumes: by Bank or Branch Officer, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty banks, separate transactions / balance sheet items, etc.);
- Ensuring continuous risk monitoring and control and compliance with all established limits;
- Avoidance of conflicts of interest;
- Ensuring internal control over compliance with policies and procedures.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Introduction (continued)

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

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through the Bank’s strategic planning process.

Risk management structure

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

Supervisory Board

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

Management Board

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

Assets and Liabilities Committee (“ALCO”)

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

Credit Committee and Retail Business Committee

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

Risk Service

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

Treasury and Securities Divisions

Treasury is responsible for the management of the Bank’s liquidity position via money market operations, while Securities Division is responsible for management of the Bank’s liquidity position via capital market operations. The Treasury Division and Securities Division report to the Management Board.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Introduction (continued)

Internal Audit Division

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

Risk measurement and risk reporting systems

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

Risks are monitored and controlled primarily based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

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

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

Risk Mitigation

The Bank does not use derivatives to manage risks arising from changes in interest rates, credit risk and liquidity risk since a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimise credit risk (see below for more detail).

Excessive risks concentration

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

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

Credit risk

The Banks considers credit risk as the probability of non-timely and/or insufficient receipt of funds from customers (counterparties) under their commitments.

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

In managing credit risk, the Bank considers the following:

- Structural (strategic) management – acceptable level of loan portfolio structure and volume (on balance sheet and off balance sheet) in short, medium and long term horizon taking into consideration estimated and unpredictable changes in the financial and economic environment;
- On-going (operational) management – acceptable quality and volume of individual loans and commitments taking into consideration estimated and unpredictable changes in the financial and economic environment;
- Structural (strategic) and on-going (operational) management of the allowance for impairment effect on the Bank's capital adequacy ratio in short, medium and long term horizon taking into consideration estimated and unpredictable changes in quality of the individual loans, credit portfolios and total credit portfolio.

The Bank manages and controls credit risk based on the following principles:

- Setting targets (optimal and acceptable for the Bank), critical (undesirable, but manageable) and threshold (requiring urgent measures) values of the key credit risk exposures;
- Providing loans or loan related commitments solely in accordance with the approved Credit policy and the Bank's internal regulations;
- Creation and maintaining allowances and provisions for loan related operations in volumes, which are not lower than the Bank's best estimates;
- Constant monitoring of the actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio;
- Taking efficient measures if the actual values of credit risk exposures approach their critical and/or threshold values.

Key credit risk exposures, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

Individual credit risk

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

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the customer's (counterparties') creditworthiness and an evaluation of their loan repayment quality; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

Portfolio credit risk

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

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

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

Credit-related commitment risks

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

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

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

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

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

Credit quality by category of financial assets

In 2015 the Bank introduced a new system of calculation of probability of default (PD) for corporate borrowers, which involves the calculation of probability of default (PD) and the rating class (PD-rate) from 1 to 17 (17 grades). In the table below for loans that are neither past due nor individually impaired, high rating mean the minimum level of credit risk. Other borrowers with good financial position and quality of debt servicing are included in the standard credit rating. The below standard rating have lower credit quality compared to previous ratings, but loans are not necessarily individually impaired. For loans that are past due or individually impaired, rating standard and below standard indicates that there is a possibility of delays in loan repayment as a result of adverse changes in commercial, financial and economic conditions. Low rating means that there is a high probability of default of loan, the borrower's activity is poor, loss making or ceased. For the exposures of foreign credit institutions: high rating is equal to the Fitch rating BBB- and higher, standard rating is equal to lower than BBB-, but higher than CCC+, and rating below standard and lower is equal to rating CCC+ and lower.

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2016	*Notes*	*High rating*	*Standard rating*	*Below standard rating*	*Standard and below standard rating*	*Low rating*	*Total*
Cash and cash equivalents	6	21,378,517	–	–	–	–	21,378,517
Amounts due from foreign credit institutions	7	683,609	–	–	–	–	683,609
Amounts due from Ukrainian credit institutions	7	20	–	758,692	–	948,020	1,706,732
Investment securities:	9						
- designated at fair value through profit or loss		24,064,110	–	–	–	–	24,064,110
- available-for-sale		46,163,120	2,030,429	–	–	–	48,193,549
- held-to-maturity		139,098	–	–	–	–	139,098
Loans to corporate customers:	8						
Commercial loans		9,132,815	21,269,325	7,516,521	25,175,588	38,975,561	102,069,810
Overdrafts		86,577	205,730	31,863	132,036	–	456,206
Finance lease receivables		82,378	–	7,151	–	5,135	94,664
Promissory notes		57,098	9,172	–	–	–	66,270
		9,358,868	21,484,227	7,555,535	25,307,624	38,980,696	102,686,950
Loans to individuals	8	7,371	46,352	13,932	171,969	1,093,764	1,333,388
Total		101,794,713	23,561,008	8,328,159	25,479,593	41,022,480	200,185,953
Provision for impairment		(113,889)	(843,220)	(626,024)	(8,193,535)	(36,620,004)	(46,396,672)
Total after provision for impairment		101,680,824	22,717,788	7,702,135	17,286,058	4,402,476	153,789,281

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2015	*Notes*	*High rating*	*Standard rating*	*Below standard rating*	*Standard and below standard rating*	*Low rating*	*Total*
Cash and cash equivalents	6	24,241,179	–	–	–	–	24,241,179
Amounts due from foreign credit institutions	7	336,366	–	–	–	–	336,366
Amounts due from Ukrainian credit institutions	7	20	–	3,745,874	2,965	547,264	4,296,123
Investment securities:	9	–	–	–	–	–	
- designated at fair value through profit or loss		9,924,610	–	–	–	–	9,924,610
- available-for-sale		37,163,276	4,028,294	–	–	–	41,191,570
- held-to-maturity		230,912	–	–	–	–	230,912
Loans to corporate customers:	8	–	–	–	–	–	
Commercial loans		9,318,389	18,832,198	7,170,623	22,363,090	36,522,320	94,206,620
Overdrafts		48,188	64,111	140,497	20,558	–	273,354
Finance lease receivables		51,033	63,361	2,006	15,331	11,816	143,547
Promissory notes		12,390	–	9,155	–	–	21,545
		9,430,000	18,959,670	7,322,281	22,398,979	36,534,136	94,645,066
Loans to individuals	8	9,581	71,755	152,582	28,572	1,040,558	1,303,048
Total		81,335,944	23,059,719	11,220,737	22,430,516	38,121,958	176,168,874
Provision for impairment		(105,330)	(756,712)	(757,782)	(7,067,120)	(32,710,013)	(41,396,957)
Total after provision for impairment		81,230,614	22,303,007	10,462,955	15,363,396	5,411,945	134,771,917

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The ageing analysis of past due but not impaired loans is provided below:

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

At 31 December 2015	*Less than 30 days*	*From 31 to 60 days*	*From 61 to to 90 days*	*Total*
Loans to customers				
Loans to corporate customers	1,574,277	1,123,307	16,108	2,713,692
Loans to individuals	22,390	3,009	2,330	27,729
Total	1,596,667	1,126,316	18,438	2,741,421

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

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

	31 December 2016	*31 December 2015*
Loans to corporate customers	46,252,053	47,700,338
Loans to individuals	202,266	298,578
Total	46,454,319	47,998,916

Impairment assessment

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

Geographical concentration

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

	31 December 2016			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	10,609,012	10,643,182	126,323	21,378,517
Due from credit institutions	867,369	639,620	37,487	1,544,476
Loans to customers	58,469,531	–	–	58,469,531
Investment securities:				
- designated at fair value through profit or loss	24,064,110	–	–	24,064,110
- available-for-sale	48,193,549	–	–	48,193,549
- held-to-maturity	139,098	–	–	139,098
Other financial assets	353,292	2,266	157	355,715
	142,695,961	11,285,068	163,967	154,144,996
Liabilities				
Amounts due to the National Bank of Ukraine	659	–	–	659
Amounts due to credit institutions	2,661,207	25,268,696	826	27,930,729
Amounts due to customers	84,673,369	425,818	689,765	85,788,952
Eurobonds issued	–	37,562,345	–	37,562,345
Subordinated debt	–	3,495,895	–	3,495,895
Other financial liabilities	29,071	17,434	348	46,853
	87,364,306	66,770,188	690,939	154,825,433
Net position	55,331,655	(55,485,120)	(526,972)	(680,437)
Commitments and contingencies (Note 22)	3,793,111	4,568	–	3,797,679

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Geographical concentration (continued)

	31 December 2015			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	10,552,282	13,482,723	206,174	24,241,179
Due from credit institutions	3,747,379	299,716	36,648	4,083,743
Loans to customers	55,099,903	–	–	55,099,903
Investment securities:				
- designated at fair value through profit or loss	9,924,610	–	–	9,924,610
- available-for-sale	41,191,570	–	–	41,191,570
- held-to-maturity	230,912	–	–	230,912
Other financial assets	402,036	1,361	785	404,182
	121,148,692	13,783,800	243,607	135,176,099
Liabilities				
Amounts due to the National Bank of Ukraine	2,979,775	–	–	2,979,775
Amounts due to credit institutions	1,390,026	17,905,990	2,854	19,298,870
Amounts due to customers	78,011,047	397,151	909,745	79,317,943
Eurobonds issued	–	33,122,294	–	33,122,294
Subordinated debt	–	9,375,369	–	9,375,369
Other financial liabilities	41,275	44,714	292	86,281
	82,422,123	60,845,518	912,891	144,180,532
Net position	38,726,569	(47,061,718)	(669,284)	(9,004,433)
Commitments and contingencies (Note 22)	5,494,694	4,234	12,000	5,510,928

Liquidity risk

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

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

While managing liquidity risk, the Bank is considering a combination of the following:

- Structural (short and long-term) assets and liabilities management focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- Current (short-term) assets and liabilities management focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management is based on acceptable levels of maturity gaps (by currency) and on the following principles:

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

Key liquidity risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Liquidity risk (continued)

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU.

The liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	31 December 2016, %	*31 December 2015, %*
N4 "Instant Liquidity Ratio" (cash in hand, balances on nostro accounts with banks and unpledged deposit certificates of the National Bank of Ukraine / balances on customers' current accounts) (minimum required by the NBU – 20%)	45.25	64.68
N5 "Current Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	180.29	123.09
N6 "Short-Term Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 60%)	154.82	136.98

Analysis of financial liabilities by remaining contractual maturities

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities At 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to the NBU	150,436	551,739	3,961,332	–	4,663,507
Amounts due to credit institutions	2,066,080	873,065	7,507,242	14,740,143	25,186,530
Amounts due to customers	66,144,071	12,979,150	1,272,008	72,127	80,467,356
Eurobonds issued	702,020	2,437,806	24,561,115	21,640,812	49,341,753
Subordinated debt	495,054	490,898	10,753,945	1,392,851	13,132,748
Other liabilities	86,281	–	–	–	86,281
Commitments and contingent financial liabilities	1,385,403	3,359,641	1,799,716	261	6,545,021
Total undiscounted financial liabilities	71,029,345	20,692,299	49,855,358	37,846,194	179,423,196

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

Market risk

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

Market risk management is performed by systematic combination of:

- Interest risk management;
- Foreign currency risk management.

Interest rate risk

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

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

Interest rate risk management is performed through a combination of:

- Structural (strategic) and current (operational) management of interest-earning assets aimed at achieving acceptable structure and volume of interest income in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates;
- Structural (strategic) and current (operational) management of interest-bearing liabilities aimed at achieving acceptable structure and volume of interest expenses in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Interest rate risk (continued)

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

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

Key interest rate risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

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

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

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

	31 December 2015				
Currency	*Base for interest rate*	*Increase in basis points*	*Effect on profit before income tax expense*	*Decrease in basis points*	*Effect on profit before income tax expense*
UAH	NBU	+100	3,144	-100	(3,144)
USD	LIBOR	+75	(117,288)	-75	117,288
EUR	LIBOR	+75	31	-75	(31)
EUR	Euribor	+75	(1,049)	-75	907
Other	LIBOR	+75	542	-75	(542)
Other	Euribor	+75	3	-75	(3)
Total			(114,617)		114,475

The equity sensitivity is calculated by the revaluation of available-for-sale financial assets with fixed rate as at 31 December to assess the possible effects of the assumed changes in interest rates. For securities classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used, for securities classified at the 3 level of the hierarchy - a method of yield curve, with the following assumptions: +/-400 b.p. for corporate bonds, +/-200 b.p. for Ukrainian state bonds denominated in local currency, +/-100 b.p. for Ukrainian state bonds in USD, +/-20% interest rate change for corporate bonds of the 3 level of hierarchy. As at 31 December 2016, the total effect of the changes on the Bank's equity is: UAH (902,490) thousand / UAH 902,490 thousand (2015: UAH (1,169,741) thousand / UAH 1,169,741 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Interest rate risk (continued)

Sensitivity of net profit/(loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit/(loss) as of 31 December in terms of effects of the assumed changes in interest rates using the method of modified duration. The effect of changes in interest rate of +/-100 b.p. for Ukrainian state bonds on the Bank's income is UAH (983,675) thousand / UAH 983,675 thousand (2015: UAH (113,405) thousand / UAH 113,405 thousand).

Currency risk

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

Currency risk management is performed through a combination of:

- Structure (strategic) and current (operational) management of assets by currency aimed at achieving an acceptable structure and amount of foreign currency cash inflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates;
- Structure (strategic) and current (operational) liabilities management aimed at achieving an acceptable structure and amount of foreign currency cash outflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates.

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

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

Key currency risk indicators, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Hryvnia, with all other variables held constant on the consolidated statement of profit and loss (consolidated income statement) (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss (consolidated income statement) or equity, while a positive amount reflects a net potential increase.

	31 December 2016		*31 December 2015*	
Currency	*Change in currency rate, %*	*Effect on profit before tax*	*Change in currency rate, %*	*Effect on profit before tax*
UAH/USD	+40.00%	(3,731,917)	+40.00%	(6,051,942)
UAH/EUR	+40.00%	(250,085)	+40.00%	(680,689)
Total		(3,982,002)		(6,732,631)
UAH/USD	-30.00%	5,998,692	-30.00%	4,538,956
UAH/EUR	-30.00%	187,564	-30.00%	510,517
Total		6,186,256		5,049,473

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities

Fair value measurement procedures

For unquoted trading and available-for-sale securities and unquoted derivatives the fair value measurements are based on the accounting policies of the Bank and approved procedures of the securities portfolio management The fair values are calculated regularly using key inputs of previous measurements and other relevant information as appropriate. Securities are revalued on a monthly basis and approved by the Bank's Credit Committee.

The Bank tests the fair values of investment properties and buildings twice a year by engaging domestic professionally qualified valuers that have extensive and relevant valuation expertise. The decision on revaluation of investment properties and buildings is made by the Board of Directors based on an evaluation of the fair value of investment properties compared to their carrying amount, and whether the fair value of buildings significantly differs from their carrying amount. The investment properties and buildings are valued by external independent appraisers that are accredited with the Bank or internal appraisers. Appraisers have the market knowledge, good reputation and adhere to the principles of independence and professional standards according to the decision made by the Board of Directors.

Levels of the fair value hierarchy

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

	31 December 2016				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31.12.2016	–	121,567	–	121,567
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31.12.2016	–	24,064,110	–	24,064,110
Available-for-sale investment securities:					
Ukrainian state bonds	31.12.2016	–	46,163,120	–	46,163,120
Corporate bonds	31.12.2016	–	2,018,739	–	2,018,739
Corporate shares	31.12.2016	–	–	11,690	11,690
Investment property	31.12.2016	–	–	1,344,074	1,344,074
Buildings	31.12.2014	–	–	1,815,850	1,815,850
Liabilities measured at fair value					
Due to customers in precious metals	31.12.2016	–	166,367	–	166,367
Assets for which fair value is disclosed					
Cash and cash equivalents	31.12.2016	6,592,738	14,785,779	–	21,378,517
Amounts due from credit institutions	31.12.2016	–	1,422,909	–	1,422,909
Loans to customers	31.12.2016	–	–	58,414,201	58,414,201
Securities held to maturity	31.12.2016	–	142,295	–	142,295
Other assets	31.12.2016	–	355,715	–	355,715
Liabilities for which fair value is disclosed					
Amounts due to the National Bank of Ukraine	31.12.2016	–	659	–	659
Amounts due to credit institutions	31.12.2016	–	27,930,729	–	27,930,729
Amounts due to customers	31.12.2016	–	85,592,252	–	85,592,252
Eurobonds issued	31.12.2016	37,014,419	–	–	37,014,419
Subordinated debt	31.12.2016	2,961,457	–	–	2,961,457
Other liabilities	31.12.2016	–	46,853	–	46,853

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

	31 December 2015				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31.12.2015	–	106,968	–	106,968
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31.12.2015	–	9,924,610	–	9,924,610
Available-for-sale investment securities:					
Ukrainian state bonds	31.12.2015	–	37,163,276	–	37,163,276
Corporate bonds	31.12.2015	–	2,388,565	–	2,388,565
Municipal bonds	31.12.2015	–	1,628,039	–	1,628,039
Corporate shares	31.12.2015	–	–	11,690	11,690
Investment property	01.11.2015	–	–	1,570,736	1,570,736
Buildings	31.12.2014	–	–	1,845,255	1,845,255
Liabilities measured at fair value					
Due to customers in precious metals	31.12.2015	–	184,758	–	184,758
Assets for which fair value is disclosed					
Cash and cash equivalents	31.12.2015	3,294,142	20,947,037	–	24,241,179
Amounts due from credit institutions	31.12.2015	–	3,976,775	–	3,976,775
Loans to customers	31.12.2015	–	–	52,878,035	52,878,035
Securities held to maturity	31.12.2015	–	225,113	–	225,113
Other assets	31.12.2015	–	404,182	–	404,182
Liabilities for which fair value is disclosed					
Amounts due to the National Bank of Ukraine	31.12.2015	–	2,979,775	–	2,979,775
Amounts due to credit institutions	31.12.2015	–	19,298,870	–	19,298,870
Amounts due to customers	31.12.2015	–	79,184,522	–	79,184,522
Eurobonds issued	31.12.2015	30,124,193	–	–	30,124,193
Subordinated debt	31.12.2015	2,359,991	6,298,447	–	8,658,438
Other liabilities	31.12.2015	–	86,281	–	86,281

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

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

	31 December 2016			*31 December 2015*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	21,378,517	21,378,517	–	24,241,179	24,241,179	–
Amounts due from credit institutions	1,422,909	1,422,909	–	3,976,775	3,976,775	–
Loans to customers	58,469,531	58,414,201	(55,330)	55,099,903	52,878,035	(2,221,868)
Securities held to maturity	139,098	142,295	3,197	230,912	225,113	(5,799)
Other assets	355,715	355,715	–	404,182	404,182	–
Financial liabilities						
Amounts due to the National Bank of Ukraine	659	659	–	2,979,775	2,979,775	–
Amounts due to credit institutions	27,930,729	27,930,729	–	19,298,870	19,298,870	–
Amounts due to customers	85,622,585	85,592,252	30,333	79,133,185	79,184,522	(51,337)
Eurobonds issued	37,562,345	37,014,419	547,926	33,122,294	30,124,193	2,998,101
Subordinated debt	3,495,895	2,961,457	534,438	9,375,369	8,658,438	716,931
Other liabilities	46,853	46,853	–	86,281	86,281	–
Total unrecognized change in unrealized fair value			1,060,564			1,436,028

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

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

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

Investment securities available for sale which are valued using a valuation technique or pricing models primarily consist of shares. These securities are valued using models utilising data which is based on the non-observable inputs. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates level of enterprise goodwill, its management and founders / shareholders.

Investment property

The highest and best use method specifies that the market value of the real estate property is based on its highest and best use which creates the highest value for the property. Only asset utilisations that are technically feasible, permissible and economically justifiable are considered.

Other valuation principles are used in line with the selected valuation approaches subject to the provisions of the national standard No. 1 *General Principles of Valuation of Property and Property Rights*, approved by the Cabinet Ministers of Ukraine No. 1440 from 10 September 2003.

Land plots are valued by applying the sales comparison approach.

Real estate is valued using either the comparative or income approach (based on the principle of expected future benefits from the use of a valued item) subject to the availability of market information and best use.

Buildings

The fair value of buildings was measured mainly using the comparative approach and in certain cases by applying either or both of the cost and income approach.

Movements in level 3 assets measured at fair value

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

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

	1 January 2015	*Total loss recorded in consolidated statement of profit and loss (consolidated income statement)*	*Purchases*	*Settlements*	*31 December 2015*
Available-for-sale investment securities	487,748	(452,702)[a]	–	(23,356)[b]	11,690
Investment property	1,986,087	(422,224)[c]	3,794[d]	(715)[e]	1,566,942
Buildings	1,873,417	(31,511)[f]	3,349[g]	–	1,845,255
Total assets	4,347,252	(906,437)	7,143	(24,071)	3,423,887

(a) UAH 24 thousand included in "Other income" (2015: UAH 580 thousand included in "Other income", UAH 19,649 thousand included in "Interest income from investment securities other than designated at fair value through profit or loss", and UAH 472,931 thousand of loss is included in losses from available-for-sale investment securities "Losses on impairment").

(b) UAH 24 thousand of settlements comprise: UAH 24 thousand of repayments (2015: UAH 23,356 thousand of settlements comprise: UAH 23,356 thousand of repayments).

(c) Loss from revaluation of investment property in the amount of UAH 160,610 thousand is included in other operating expenses, gain from sale of investment property of UAH 2,916 thousand is included in other income (2015: loss from revaluation of investment property in the amount of UAH 422,409 thousand is included in other operating expenses, gain from sale of investment property of UAH 185 thousand is included in other income).

(d) Purchases in 2016 include UAH 12,306 thousand of purchases (2015: UAH 3,794 thousand of own property transferred to investment property).

(e) Settlements in the amount of UAH 77,480 thousand include UAH 77,467 thousand of sales UAH 13 thousand of transfers to property and equipment (2015: UAH 715 thousand of sales).

(f) Loss of UAH 31,277 thousand is included into depreciation and amortization (2015: loss of UAH 31,511 thousand is included into depreciation and amortization).

(g) Purchases in 2016 in the amount of UAH 1,872 thousand include UAH 56 thousand of purchases and UAH 1,816 thousand of transfer from construction in progress to premises and equipment (2015: UAH 3,349 thousand of transfer from construction in progress to premises and equipment).

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

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

	2015		
	Realised gains	*Unrealised losses*	*Total*
Investment securities available for sale	14,741	(467,443)	(452,702)
Investment property	185	(422,409)	(422,224)
Buildings	–	(31,511)	(31,511)
Total	14,926	(921,363)	(906,437)

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

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

The tables below shows the quantitative information as at 31 December 2016 and 31 December 2015 about significant unobservable inputs used for the fair valuation of assets classified as those of the 3 level of the fair value hierarchy:

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

At 31 December 2015	*Carrying value*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Available-for-sale investment securities	11,690	Discounted cash flows	Expected profitability	Corporate: 5.00%-32.00%
			Risk factor	Corporate: 0-1.0
Investment property:				
- *real estate*	651,275	Comparative, income method	Sqm	UAH 1 thousand – UAH 36 thousand
- *land*	915,667	Comparative	Are	UAH 6 thousand – UAH 2,596 thousand
Buildings:				
- *real estate*	1,843,617	Comparative	Sqm	UAH 1 thousand – UAH 34 thousand
- *land*	1,638	Comparative	Are	UAH 56 thousand – UAH 194 thousand

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

In order to determine possible alternative assumptions, the Bank uses key unobservable inputs as follows:

- For equities, the Bank adjusted the assumptions as to the possibility of bankruptcy or losses that were used to determine the credit component in fair value. The adjustment made was to increase the assumption up to 100% subject to individual characteristics of the investee;
- For debt securities classified as level 3, the Bank adjusted the probability of changes in interest rate assumption applied for discounting cash flows from debt securities within the range of +/-30% (31 December 2015: +/-30%) of the level as at the end of the reporting period.

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Maturity analysis of assets and liabilities

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

	31 December 2016			*31 December 2015*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	21,378,517	–	21,378,517	24,241,179	–	24,241,179
Due from credit institutions	810,785	733,691	1,544,476	2,854,695	1,229,048	4,083,743
Loans to customers	36,136,670	22,332,861	58,469,531	30,713,229	24,386,674	55,099,903
Investment securities:						
- designated at fair value through profit or loss	323,477	23,740,633	24,064,110	6,798,950	3,125,660	9,924,610
- available-for-sale	21,807,627	26,385,922	48,193,549	33,727,611	7,463,959	41,191,570
- held-to-maturity	6,032	133,066	139,098	59,097	171,815	230,912
Tax assets	101,677	–	101,677	293,122	–	293,122
Investment property	–	1,344,074	1,344,074	–	1,566,942	1,566,942
Property and equipment	–	2,120,672	2,120,672	–	2,170,944	2,170,944
Intangible assets	–	26,778	26,778	–	17,584	17,584
Deferred income tax asset	–	2,322,000	2,322,000	–	1,730,750	1,730,750
Other assets	697,747	–	697,747	797,253	–	797,253
Total	81,262,532	79,139,697	160,402,229	99,485,136	41,863,376	141,348,512
Liabilities						
Amounts due to the National Bank of Ukraine	659	–	659	1,948	2,977,827	2,979,775
Amounts due to credit institutions	5,959,202	21,971,527	27,930,729	2,168,271	17,130,599	19,298,870
Amounts due to customers	85,101,559	687,393	85,788,952	78,143,111	1,174,832	79,317,943
Eurobonds issued	1,097,973	36,464,372	37,562,345	982,002	32,140,292	33,122,294
Subordinated debt	113,350	3,382,545	3,495,895	426,947	8,948,422	9,375,369
Provisions for other losses	5,137	–	5,137	22,213	–	22,213
Other liabilities	258,246	–	258,246	292,387	–	292,387
Total	92,536,126	62,505,837	155,041,963	82,036,879	62,371,972	144,408,851
Net amount	(11,273,594)	16,633,860	5,360,266	17,448,257	(20,508,596)	(3,060,339)

The maturity analysis does not reflect the historical stability of current accounts. In the table above current accounts are reflected in the Amount due to customers in "Within one year" maturity bucket. It should be noted that historically substantial portion of funds have remained on the current accounts for periods longer than one year. The category Amounts due to customers includes term deposits of individuals in accordance with their contractual maturity dates. In accordance with Ukrainian legislation, the Bank is obliged to repay time deposit to individuals on their request only on maturity date prescribed in the deposit agreement. Early repayment of time deposit on customer request is prohibited and could be done only in the cases and under conditions stipulated by such agreement. The Bank expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities .

(thousands of Ukrainian hryvnia, unless otherwise stated)

28. Presentation of financial instruments by measurement category

Assets by measurement categories as at 31 December 2016:

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

Assets by measurement categories as at 31 December 2015:

	Loans and receivables	*Assets available for sale*	*Assets at fair value through profit or loss*	*Assets held to maturity*	*Total*
Cash and cash equivalents	24,241,179	–	–	–	24,241,179
Due from credit institutions	3,976,775	–	106,968	–	4,083,743
Loans to customers	55,099,903	–	–	–	55,099,903
Investment securities:					
- designated at fair value through profit or loss	–	–	9,924,610	–	9,924,610
- available-for-sale	–	41,191,570	–	–	41,191,570
- held-to-maturity	30,128	–	–	200,784	230,912
Other financial assets	404,182	–	–	–	404,182
Total	83,752,167	41,191,570	10,031,578	200,784	135,176,099

As at 31 December 2016 and 31 December 2015, all financial liabilities of the Bank were carried at amortized cost, except for deposits in gold, which belong to the fair value through profit or loss measurement category.

29. Related party disclosures

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

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Related party disclosures (continued)

The outstanding balances of key management personnel as at 31 December 2016 and 2015, and related income and expense for the years ended 31 December 2016 and 2015, are as follows:

	31 December 2016	*31 December 2015*
	Key management personnel	*Key management personnel*
Loans to customers	401	170
Less: Allowance for impairment	(269)	(23)
Loans to customers, net	132	147
Current accounts	4,399	21,758
Time deposits	5,511	2,666
Amounts due to customers	9,910	24,424
Other liabilities	(7)	–

	2016	*2015*
	Key management personnel	*Key management personnel*
Interest income on loans	81	2
Interest expense on customers' deposits	(245)	(153)
Commission income	3	–
Translation differences	(1,768)	(10,466)

The aggregate remuneration and other benefits paid to key management personnel for the year ended 31 December 2016 is UAH 19,473 thousand (UAH 280 thousand payment to non-state pension fund) (for the year ended 31 December 2015: UAH 24,400 thousand (UAH 314 thousand payment to non-state pension fund)).

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

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Related party disclosures (continued)

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2015 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Due from credit institutions*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State enteties	–	–	–	1,958,950	–	–	–
Client 2	State enteties	–	–	–	1,838,815	–	–	–
Client 3	Agriculture and food industry	–	–	–	25,459,305	–	–	–
Client 6	Finance	8,440,141	–	–	–	2,979,775	–	–
Client 12	Finance	–	2,262,063	–	–	–	–	–
Client 4	Extractive industry	–	–	9,436,665	–	–	–	–
Client 5	Extractive industry	–	–	1,080,080	–	–	–	–
Client 8	Trade	–	–	538,455	851,219	–	–	1,538,646
Client 9	Trade	–	–	–	–	–	–	722,621
Client 11	Mechanical engineering	–	–	2,002,138	–	–	–	472,454
Client 10	Power engineering	–	–	1,543,572	–	–	–	–
Client 13	Road construction	–	–	1,053,974	–	–	–	–
Other		–	–	560,884	6,828,540	–	238,378	–

For the twelve-month period ended 31 December 2016, the Bank recorded UAH 2,496,386 thousand of interest income (for the twelve month period ended 31 December 2015: UAH 2,332,037 thousand), including interest income from operations with the NBU deposit certificates with maturity up to 90 days – UAH 399,002 thousand (for the twelve-month period 2015: UAH 247,309 thousand) and UAH 2,141,161 thousand of interest expenses (for the twelve months period ended 31 December 2015: UAH 2,628,673 thousand) from significant transactions with the government-related entities.

As at 31 December 2016 and 2015, the Bank's investments in debt securities issued by the government or the government-related corporate entities were as follows:

	31 December 2016	*31 December 2015*
Available-for-sale investment securities	48,192,169	39,562,151
Investment securities designed at fair value through profit or loss	24,064,110	9,924,610
Investment securities held to maturity	139,098	230,912

Carrying value of government bonds, which are included in investment securities designated at fair value through profit or loss and investment securities available for sale is disclosed in Note 9.

For the twelve-month period ended 31 December 2016, the Bank recorded UAH 4,346,780 thousand (for the twelve-month period 2015: UAH 3,371,185 thousand) of interest income from transactions with government bonds, and UAH 440,458 thousand from transactions with other investment securities (for the twelve-month period 2015: UAH 816,307 thousand) of interest income.

30. Capital adequacy

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

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business activities and maximise the value to the shareholder.

(thousands of Ukrainian hryvnia, unless otherwise stated)

30. Capital adequacy (continued)

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

NBU capital adequacy ratio

In 2015, the NBU performed diagnostic study of 20 largest banks of Ukraine, including the Bank. Separate requirements for the capital adequacy ratio were applied for the banks that took part in diagnostic study of the NBU. These requirements are approved by the NBU based on the results of diagnostic studies and remediation plans, but in any case, upon the approval, the ratio shall not be: lower than 5% staring 1 February 2016, and reach 7% as at 1 February 2018 and 10% as at 1 January 2016. During 2016 and as at 31 December 2016 the Bank complied with these requirements.

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

	31 December 2016	*31 December 2015*
Main capital	3,908,734	1,141,141
Additional capital, calculated	4,589,478	8,709,529
Additional capital included in the calculation of total capital (limited to main capital)	3,908,734	1,141,141
Total capital	7,817,468	2,282,282
Risk weighted assets	79,030,619	94,789,952
Capital adequacy ratio	9.89%	2.41%

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

Capital adequacy ratio under Basel Capital Accord 1988

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

	31 December 2016	*31 December 2015*
Tier 1 capital	4,634,931	(3,725,162)
Tier 2 capital, calculated	3,042,801	664,823
Tier 2 capital included in the calculation of total capital	3,042,801	–
Total capital	7,677,732	(3,725,162)
Risk weighted assets	79,994,257	89,889,011
Tier 1 capital ratio	5.8%	-4.14%
Total capital ratio	9.6%	-4.14%

(thousands of Ukrainian hryvnia, unless otherwise stated)

31. Subsequent events

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

The Government of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state indexed bonds with the nominal value of UAH 3,022,001 thousand with 10-year maturity and interest rate of 6% p.a.

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

The Government of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state indexed bonds with the nominal value of UAH 4,700,001 thousand with 15-year maturity and interest rate of 9% p.a.