KREDOBANK Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors' Report

31 December 2017

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Independent Auditors' Report

To the Management Board of Public Joint Stock Company "Kredobank"

Opinion

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

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

Basis for Opinion

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

Impairment of loans and advances
Please refer to the Note 9 in the consolidated financial statements.

The key audit matter	***How the matter was addressed in our audit***
Impairment allowances represent management's best estimate of the losses incurred on loans and advances to customers through the application of judgement and use of assumptions that significantly impact the amount of the loans impairment allowances. Due to the significance of loans and advances to customers (representing 55% of total assets) and the related estimation uncertainty, their impairment assessment is deemed a key audit matter	Our audit procedures included evaluating and testing the Group's key controls over the identification and assessment of loan impairment, including controls over the approval, recording and monitoring of loans to customers, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments and determining the adequacy of impairment allowances for individually assessed loans to customers through forecast recoverable cash flows, including the realization of collateral. We assessed the Group's assumptions in respect of historical default rates, recovery rates, collateral valuation and discount rates and considered if they are reasonable in given circumstances. For a sample of exposures that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the financial statements, we specifically challenged the Group's assumptions on the expected future cash flows, including the value of realizable collateral based on our own understanding and available market information, assessed the financial standing of the borrower based on the key financial ratios and the impact of general market and industry conditions on deterioration of the credit risk. Our impairment testing of the collectively assessed loans included a review the calculations in accordance with the impairment model, as well as adequacy analysis of the inputs so that to evaluate the accuracy of the impairment assessment model used for collectively assessed loans. We critically assessed the assumptions used in the model and compared them to our understanding of the Group and its efficiency and to the industry trends. We evaluated the Group's methodology used to estimate the

	probability of default coefficients for various categories of the Group's customers, and calculated these coefficients based on the Group's actual historical information. To determine the adequacy of the coefficients applied to the collectively assessed loans, we compared our calculation of the coefficients to those used by the Group. Other judgments to evaluation of the collateral and expected collateral realization costs were assessed by comparison to the Group's internal information and industry information. Our procedures also involved the assessment of whether the disclosures in the financial statements reflected the impact of the credit risk properly.

Other Information

Management is responsible for the other information. The other information comprises the information disclosed and reported to the National Commission on Securities and Stock Market (hereinafter "the Commission"), but does not include the financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

«КПМГ Аудит»
Ідентифікаційний код
31032100

Parkhomenko Anna

Certified Auditor

Banking Auditor's Certificate No. 0085 dated 29 October 2009

Deputy Director, JSC KPMG Audit

12 March 2018

In thousands of hryvnias	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	7	2 322 054	1 379 352
Due from other banks	8	15 370	41 934
Loans and advances to customers	9	7 917 370	5 673 957
Investment securities available for sale	10	1 924 325	1 435 855
Investment securities held to maturity	11	1 185 365	1 712 872
Current income tax prepayment		1 018	7 509
Deferred income tax asset	29	19 734	26 593
Investment property	12	14 592	10 711
Intangible assets	13	84 555	61 329
Premises, leasehold improvements and equipment	13	748 956	599 129
Other financial assets	14	34 688	30 111
Other non-financial assets	15	101 589	105 648
Total assets		**14 369 616**	**11 085 000**
Liabilities			
Due to other banks	16	1 887 935	1 297 168
Customer accounts	17	10 892 632	8 170 863
Due to other financial institutions	18	107 865	-
Debt securities	19	4 759	-
Current income tax liabilities		20 313	-
Other financial liabilities	20	55 104	63 749
Other non-financial liabilities	21	102 645	94 921
Subordinated debt	22	-	557 904
Total liabilities		**13 071 253**	**10 184 605**
Equity			
Share capital	23	2 248 969	2 248 969
Accumulated deficit		(1 084 705)	(1 484 321)
Revaluation reserve for premises		110 536	125 624
Revaluation reserve for investment securities available for sale		23 563	10 123
Total equity		**1 298 363**	**900 395**
Total liabilities and equity		**14 369 616**	**11 085 000**

Approved for issue and signed on behalf of the Management Board on March 12, 2018.

G. Szatkowski
Chairman of the Management Board

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК»
KredoBank
09807862
УКРАЇНА • м. ЛЬВІВ

Vasyl Lototsky
Chief Accountant

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

In thousands of hryvnias	Note	2017	2016
Interest income	25	1 533 391	1 304 360
Interest expense	25	(457 338)	(439 713)
Net interest income		**1 076 053**	**864 647**
Provision for loan impairment	9	(175 034)	(206 627)
Net interest margin after provision for loan impairment		**901 019**	**658 020**
Fee and commission income	26	479 861	345 999
Fee and commission expense	26	(91 297)	(62 808)
Result from trading in foreign currencies		60 092	59 876
Foreign exchange translation result		(16 692)	(30 547)
Gains from securities at fair value through profit or loss		-	1 513
Gains less losses from investment securities available for sale		1 430	6 572
Provision for other financial and non-financial assets		2 661	(5 379)
Provision for credit related commitments		(8 387)	(2 739)
Other operating income	27	31 245	13 320
Administrative and other operating expenses	28	(882 941)	(707 644)
Profit before tax		**476 991**	**276 183**
Income tax/expense for the year	29	(92 463)	(75 133)
Profit for the year		**384 528**	**201 050**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Investment securities available for sale:			
- Net change in fair value of investment securities available-for-sale	24	11 034	(13 731)
- Net change in fair value of investment securities available-for-sale transferred to profit or loss, net of deferred tax	24	2 406	7 806
Items that will not be reclassified to profit or loss:			
Revaluation of premises and equipment:			
- Revaluation of items which were transferred from owner occupied property to investment property on the date of change in use		-	73
Other comprehensive income/(loss) for the year		**13 440**	**(5 852)**
Total comprehensive income for the year		**397 968**	**195 198**
Basic and diluted profit per share attributable to shareholders of the Group, (UAH per share)	30	0,0017	0,0009

Approved for issue and signed on behalf of the Management Board on March 12, 2018.

G. Szatkowski
Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

In thousands of hryvnias	Note	Share capital	Non-registered share capital	Revaluation reserve for investment securities available for sale	Revaluation reserve for premises	Accumulated deficit	Total equity
Balance at 1 January 2016		**1 918 969**	**330 000**	**16 048**	**129 001**	**(1 688 821)**	**705 197**
Profit for the year		-	-	-	-	201 050	201 050
Other comprehensive loss	24	-	-	(5 925)	73	-	(5 852)
Total comprehensive income for 2016		-	-	(5 925)	73	201 050	195 198
Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus		-	-	-	(3 450)	3 450	-
Transactions with the parent company							
Non-registered share capital	23	330 000	(330 000)	-	-	-	-
Transactions with shareholders, total		330 000	(330 000)	-	-	-	-
Balance at 31 December 2016		**2 248 969**	**-**	**10 123**	**125 624**	**(1 484 321)**	**900 395**
Profit for the year		-	-	-	-	384 528	384 528
Other comprehensive loss	24	-	-	13 440	-	-	13 440
Total comprehensive income for 2017		-	-	13 440	-	384 528	397 968
Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus		-	-	-	(15 088)	15 088	-
Balance at 31 December 2017		**2 248 969**	**-**	**23 563**	**110 536**	**(1 084 705)**	**1 298 363**

Approved for issue and signed on behalf of the Management Board on March 12, 2018.

G. Szatkowski
Chairman of the Management Board

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Vasyl Lototsky
Chief Accountant

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

In thousands of hryvnias	Note	2017	2016
Cash flows from operating activities			
Interest received		1 504 610	1 196 918
Interest paid		(446 706)	(432 737)
Fees and commissions received		485 374	347 523
Fees and commissions paid		(91 297)	(62 808)
Income received from trading in foreign currencies		60 092	59 876
Other operating income received		21 818	12 276
Staff costs paid		(347 468)	(269 308)
Administrative and other operating expenses paid		(394 433)	(319 838)
Income tax paid		(58 801)	(58 605)
Cash flows from operating activities before changes in operating assets and liabilities		**733 189**	**473 297**
Net decrease/(increase) in due from banks		25 457	(36 698)
Net decrease in securities at fair value through profit or loss		-	199 756
Net increase in loans and advances to customers		(2 274 335)	(1 479 851)
Net increase in other financial and non-financial assets		(2 986)	(51 121)
Net increase/(decrease) in due to other banks		495 653	(261 751)
Net increase in customer accounts		2 403 047	2 276 053
Net (decrease)/increase in other financial and non-financial liabilities		(1 066)	11 224
Net cash from operating activities		**1 378 959**	**1 130 909**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(1 302 003)	(1 718 263)
Proceeds from disposal and redemption of investment securities available for sale		912 071	1 198 301
Acquisition of investment securities held to maturity		-	(1 559 774)
Proceeds from redemption of investment securities held to maturity		522 386	1 103 256
Acquisition of premises and equipment	13	(254 547)	(205 286)
Proceeds from disposal of premises, equipment and intangible assets		29 043	1 370
Acquisition of intangible assets	13	(53 184)	(27 766)
Net cash used in investing activities		**(146 234)**	**(1 208 162)**
Cash flows from financing activities			
Cancellation subordinated debt	22,37	(539 253)	-
Proceeds from other financial institutions	18	105 400	
Proceeds from the own debt securities issue	19	250 000	-
Redemption of the own debt securities	19	(245 300)	
Net cash from financing activities		**(429 153)**	**-**
Effect of exchange rate changes on cash and cash equivalents		**139 130**	**32 795**
Net increase/(decrease) in cash and cash equivalents		**942 702**	**(44 458)**
Cash and cash equivalents at the beginning of the year		1 379 352	1 423 810
Cash and cash equivalents at the end of the year	3, 7	**2 322 054**	**1 379 352**

Approved for issue and signed on behalf of the Management Board on March 12, 2018.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК» KredoBank 09807862 УКРАЇНА м. ЛЬВІВ

G. Szatkowski
Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for Public Joint-Stock Company “Kredobank” (the “Bank”) and its subsidiary – “Finance Company Idea Capital” Limited Liability Company (together the “Group”). As at 31 December 2017 and 31 December 2016 the Bank fully owns “Finance Company Idea Capital” Limited Liability Company.

The Bank was incorporated and is domiciled in Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian laws. As at 31 December 2017 and 31 December 2016, the Bank’s immediate parent company was PKO Bank Polski S.A. (Poland). The Bank is a member of the PKO Bank Polski S.A. Group (“PKO BP S.A. Group”). The largest shareholder of the PKO BP S.A. Group is the Ministry of State Treasury of Poland, that controls PKO Bank Polski S.A. as owns 29.43% in the share capital of PKO Bank Polski S.A.. Share of other shareholders of PKO BP S.A. does not exceed 10% of voting shares. The Bank does not have transactions with the Ministry of State Treasury of Poland. As at 31 December 2017, PKO BP S.A. owns 99.6293% of shares of the Bank (31 December 2016: 99.6293%).

The Supervisory Board of the Bank (minutes No. 3/2017 of September 11, 2017) decided to change the legal form of the Bank to a private joint-stock company. As of December 31, 2017, the organizational and legal form has not yet been amended.

Principal activity. The Group’s principal business activity includes commercial banking operations, corporate and retail banking operations within Ukraine. The Bank was founded in 1990 as a joint stock company. Initially registered by the USSR State Bank, the Bank was re-registered by the National Bank of Ukraine (the “NBU”) on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company “ Kredobank” in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint-Stock Companies.

The Bank operates under Licence # 43 issued by the NBU on 11 October 2011 and General License # 43-2 issued on 19 December 2016, that provide the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses licences for custodial services issued on 10 October 2013 and licences for securities operations issued on 7 November 2012. The Bank participates in the State deposit insurance scheme (registration # 051 dated 19 October 2012), which operates according to the Law of Ukraine “On Deposit Guarantee Fund” dated 23 February 2012 (as amended). The Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand (2016: UAH 200 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2017, the Bank has 102 outlets (in 2016 – 111 outlets) in Ukraine.

The strategic goal of the Bank is to ensure a target level of return on capital (> 20%), a place in the TOP-7 banks in retail lending, and support growth rate more then twice average in the banking sector, as well as unified quality of service in all outlets and remote channels. The mission of the Bank is to be a reliable financial partner for clients and an attractive employer for employees. Due to the specialization and concentration of resources, the Bank seeks to achieve and maintain long-term business stability, thereby ensuring the return on investment of its shareholders.

Finance Company Idea Capital” Limited Liability Company acquires the right of claim on liabilities under loan agreements and collects the claimed debts for profit-making purposes.

Registered address and place of business. The Bank’s registered address and place of business is:

78 Saharova Str.
79026 Lviv
Ukraine

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

2 Operating environment of the Group

In 2017 the Ukrainian economy and banking sector continued to be significantly affected by the following political and social factors that arose in 2014-2015:

- a part of Ukrainian territory (Autonomous Republic of Crimea) remained under temporary occupation by the Russian Federation as a result of the annexation that was not recognized by international community (United Nations General Assembly Resolution 68/262 of 27 March 2014 "Territorial Integrity of Ukraine" and United Nations General Assembly Resolution 71/205 of 19 December 2016 "Situation of the human rights in the temporarily occupied Autonomous Republic of Crimea)";
- on a part of Ukrainian territory (certain areas in the Donetsk and Lugansk regions), the military conflict and armed clashes with separatist groups supported from abroad continued during 2017. The Ukrainian authorities continued the anti-terrorist operation with the involvement of the Armed Forces and law enforcement bodies. Since the end of 2015, military activities in the region has significantly decreased as a result of the "Minsk Agreements". As at the date of approval of these consolidated financial statements, certain areas of the Donetsk and Lugansk regions remained under control of the separatist groups, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

The above circumstances make impossible any business of Ukrainian banks and companies in Autonomous Republic of Crimea and on part of the Donetsk and Lugansk regions.

The annexation of Autonomous Republic of Crimea, the armed conflict in the East part of Ukraine and the resulting sharp deterioration of the relationship between Ukraine and the Russian Federation, deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade in 2014-2015, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, a ban on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

Following the continuous recession, Ukrainian economy resumed its growth in 2016. According to preliminary data, real GDP was 2,3% year-on-year in 2016.The main factor of economic recovery was intensification of domestic consumer and investment demand. The sharp inflation reduction to 12,4% year-on-year and foreign exchange market stabilization caused the commercial and retail customer deposits grown in national currency by 12% and 5% year-on-year, respectively.

The GDP growth rate went down in 2017. At the same time economic growth was supported by export growth due to an enabling external economic environment, improvement in the financial situation of enterprises and investment activity of business, the recovery of private consumption. According to the released data, GDP growth in the 1st quarter was 2.5%, in the 2nd quarter it slowed down to 2.3%, in the 3rd quarter - to 2.1%, in the 4th quarter - 1,8%. In addition, inflation accelerated from 12.4% in December 2016 to 13.7% in December 2017 year-on-year. The reasons for the acceleration of inflation in 2017 are rising prices for raw food and fuel.

To get the inflation rate back to average level the National Bank of Ukraine was forced to move towards tight monetary policy in 2017 after its easing during 2016 and half-year of 2017 (the discount rate has decreased from 22% to 12.5% during this period). For this purpose the NBU increased the discount rate twice in October and December as the result of which the discount rate was 14.5% as at 31 December 2017.

A moderate devaluation of the hryvnia exchange rate against the US dollar in 2017 (-3.2% y/y) contributed to accelerating the inflow of national currency deposits into the banking system - hryvnia deposits grew by 19.4% over the year, compared with an increase of 5% in 2016 year In general, the growth of clients' funds in Ukrainian banks amounted to 13% y/y in 2017, with an aggregate loan portfolio growth of 1.9% y/y (according to NBU operational data).

2 Operating environment of the Group (continued)

Cooperation with International Monetary Fund (IMF) remains an important macroeconomic stability factor for Ukraine. In September 2016 Ukraine received the third tranche under EFF, in April 2017 – the fourth tranche of around USD 1 bn., and there was issuance of Eurobonds in the amount of USD 3 bn. As a result, as at 31 December 2017 Ukraine's international reserves increased to USD 18.8 bn.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Bank's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3 Significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, continuing financial support from the parent company, budgeted profitability of future operations and access to financial resources and analysed the impact of the current financial and economic situation on future operations of the Group.

Consolidated financial statements.

Business combinations. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3 Significant accounting policies (continued)

Structured entities. A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Acquisition of entities under common control. Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Bank are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recorded in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within the Bank equity, except that any share capital of the acquired entities is recognised as part of additional paid in capital. Any cash paid for the acquisition is debited to equity.

Acquisitions and disposals of non-controlling interests. The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Associates. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds the Group’s interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation. Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Non-controlling interests. Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statement of profit or loss and other comprehensive income.

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

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

3 Significant accounting policies (continued)

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period (See Note 35).

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

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

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

3 Significant accounting policies (continued)

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances with the NBU, deposit certificates and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

Securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed by the Group and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group’s key management personnel; or (c) the financial asset includes the embedded derivative that considerably changes contractual cash flows that would have been initially envisaged by the contract without embedded derivative.

Securities at fair value through profit or loss are carried at fair value. Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Group’s right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from securities at fair value through profit or loss in the period in which they arise.

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

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

3 Significant accounting policies (continued)

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

The following other principal criteria are also used to determine whether there is an objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- changes to contract with borrower in respect of extension of maturity, changes in payment schedule, payment schemes and other changes to initial contractual terms due to the borrower's financial difficulties.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows after revision of the credit agreement terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

3 Significant accounting policies (continued)

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Group enters into credit related commitments, including commitments to extend loans, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

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

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year.

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

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

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as due from banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

3 Significant accounting policies (continued)

Investment securities held-to-maturity. This classification includes non-derivative financial assets quoted at the active market with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment security is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification as at the end of each reporting period. Investment securities held-to-maturity are carried at amortised cost.

Finance lease. Where the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The fair value of the Group's investment property is determined based on reports of the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The basis used for the valuation was market value.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Starting from 2012, land and buildings are recorded under the revaluation model. At the date of revaluation accumulated depreciation of buildings was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Buildings held by the Group are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for buildings included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

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

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

3 Significant accounting policies (continued)

Gains or losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives, years
Premises	70
Furniture and fixtures	5-15
Motor vehicles	7
Computers and equipment	5-15
Leasehold improvements	over the term of the underlying lease

Intangible assets. The Group's intangible assets have the definite useful life and primarily include capitalised computer software.

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

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of no more than 10 years (2016: up to 10 years).

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

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to banks. Due to banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

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

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

Derivative financial instruments. Derivative financial instruments, including currency swaps are carried at their fair value.

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

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract. If the Group is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the entire hybrid contract is designated as at fair value through profit or loss.

3 Significant accounting policies (continued)

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

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

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

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

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

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

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

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

Interest income on impaired financial assets is recognised at the carrying value using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss of the financial asset.

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

The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

3 Significant accounting policies (continued)

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Foreign currency translation. The functional currency of the Group is the currency of the economic environment in which the Group operates. The Group's functional and presentation currency is the national currency of Ukraine, hryvnias.

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

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

	31 December 2017, UAH	31 December 2016, UAH
1 US dollar (USD)	28,0672	27,1908
1 Euro (EUR)	33,4954	28,4226
1 Russian Rouble (RUB)	0,4870	0,4511

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

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

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to management being the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately in these financial statements based on the ultimate domicile of the counterparty. The ultimate domicile and the actual place of business of the counterparties generally coincide.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

3 Significant accounting policies (continued)

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the statement of financial position which combines amounts expected to be recovered or settled.

	31 December 2017			31 December 2016		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
In thousands of hryvnias	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
Assets						
Cash and cash equivalents	2 322 054	-	2 322 054	1 379 352	-	1 379 352
Due from other banks	11 857	3 513	15 370	41 934	-	41 934
Loans and advances to customers	3 539 947	4 377 423	7 917 370	2 767 645	2 906 312	5 673 957
Investment securities available for sale	1 020 647	903 678	1 924 325	173 570	1 262 285	1 435 855
Investment securities held to maturity	1 185 365	-	1 185 365	595 177	1 117 695	1 712 872
Current income tax prepayment	1 018	-	1 018	7 509	-	7 509
Deferred income tax asset	-	19 734	19 734	9 465	17 128	26 593
Investment property	-	14 592	14 592	-	10 711	10 711
Intangible assets	-	84 555	84 555	-	61 329	61 329
Premises, leasehold improvements and equipment	-	748 956	748 956	-	599 129	599 129
Other financial assets	34 688	-	34 688	30 111	-	30 111
Other assets	101 589	-	101 589	105 648	-	105 648
Total assets	**8 217 165**	**6 152 451**	**14 369 616**	**5 110 411**	**5 974 589**	**11 085 000**
Liabilities						
Due to other banks	1 887 935	-	1 887 935	1 297 168	-	1 297 168
Customer accounts	10 754 682	137 950	10 892 632	8 022 597	148 266	8 170 863
Due to other financial institutions	8 094	99 771	107 865	-	-	-
Own debt securities	4 759	-	4 759	-	-	-
Current income tax liabilities	20 313	-	20 313	-	-	-
Other financial liabilities	55 104	-	55 104	63 749	-	63 749
Other non-financial liabilities	102 645	-	102 645	94 921	-	94 921
Subordinated debt	-	-	-	557 904	-	557 904
Total liabilities	**12 833 532**	**237 721**	**13 071 253**	**10 036 339**	**148 266**	**10 184 605**

4 Critical accounting estimates, and judgements in applying accounting policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in a decrease/increase in loans and advances to customers by UAH 26,436 thousand or an increase/decrease in loan impairment losses by UAH 48,811 thousand (2016 - by UAH 31,537 thousand and by UAH 46,901 thousand respectively).

Valuation of own use premises. As stated in Note 3, buildings held by the Group are subject to revaluation on a regular basis. The valuation was carried out by the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The valuation was based on a comparative sales method. When performing the valuation, certain judgements and estimates were applied in determining the comparable premises to be used in a sales comparison approach. As the difference between the carrying value and market value of the buildings was insignificant as at 31 December 2017 and 31 December 2016, no revaluation was conducted. Change in such assumptions may have an impact on fair value of assets. If real estate prices increased/decreased by 10%, fair value of premises would have increased/decreased by UAH 30,000 thousand (2016: UAH 27,370 thousand).

5 Adoption of new or revised standards and interpretations

During 2017, there were neither significant amendments to the standards, nor any new standards or interpretations that would have a significant impact on the Group's consolidated financial statements.

6 New accounting pronouncements

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2017, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. The new standard will require the entity to revise its accounting processes and internal controls, and these changes are not yet complete. The assessment made by the entity is preliminary as not all transition work requirements have been finalized and therefore may be subject to adjustment. However, preliminary estimates are that transition to the new standard will not result in material impact on equity and breach of NBU adequacy ratio. Negative impact on equity is not expected to exceed 3-10% of equity at 1 January 2018.

The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- the new systems and associated controls in place have not been operational for a more extended period;
- the Group has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Group is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

(i) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

6 New accounting pronouncements (continued)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

6 New accounting pronouncements (continued)

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9.

The Group has estimated that, on the adoption of IFRS 9 at 1 January 2018, there will be no significant impact of changes in classification on the Group's equity.

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ELC) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECLs.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
- *financial assets that are credit-impaired at the reporting date:* the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

6 New accounting pronouncements (continued)

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (see Note 3).

Definition of default

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising collateral (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. breaches of covenant, overdue status and non-payment of another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.
- start of liquidation or bankruptcy procedure for the borrower

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by analysing indicators that are:

- the borrower is more than 30 days past due but less than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. breaches of covenant, overdue status and non-payment of another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

The Group will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

6 New accounting pronouncements (continued)

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models. They will be adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which will be calculated based on statistical models and assessed using tools tailored to the various categories of counterparties and exposures.

LGD is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period.

For overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group will measure ECLs over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period will be estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- date of initial recognition;
- geographic location of the borrower
- loan currency

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking information

Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. This assessment is based on external information. External information may include economic data and forecasts published by governmental bodies, and selected private sector and academic forecasters.

The Group will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

6 New accounting pronouncements (continued)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts, unemployment rates forecasts, EURIBOR rate forecasts.

Impact assessment

The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Group has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances will not be significant and won't result in breach of NBU normatives. Negative impact on equity is not expected to exceed 3-10 % of equity at 1 January 2018.

(iii) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

(iv) Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Group does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Group expects an immaterial impact from adopting these new requirements.

(v) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

(vi) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
- If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

(b) IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 16 at or before the date of initial application of IFRS 16.

6 New accounting pronouncements (continued)

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

(c) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs*. The core principle of the new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not intend to adopt this standard early.

The Group does not expect material impact on its financial statements resulting from the application of IFRS 15.

(d) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group’s consolidated financial statements.

— *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*

— *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*

— *Transfers of Investment Property (Amendments to IAS 40).*

— *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*

— *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

— *IFRIC 23 Uncertainty over Income Tax Treatments.*

7 Cash and cash equivalents

In thousands of hryvnias	2017	2016
Cash on hand	355 870	210 894
Cash balances on correspondent accounts with the NBU	464 525	335 548
Correspondent accounts with other banks	1 269 386	547 378
Deposit certificates of the NBU	172 185	285 532
Due from other banks with an original maturity of less than three months	60 088	-
Total cash and cash equivalents	**2 322 054**	**1 379 352**

As of December 31, 2016, the amount of mandatory reserves, which had to be kept daily at the beginning of the trading day on the correspondent account of the bank at the National Bank of Ukraine, should have been not less than 40% of the estimated amount of the provision calculated for the relevant maintenance period.

As at 31 December 2016 the NBU did not require to keep mandatory reserve at the separate account. The mandatory reserve balance should have been maintained at the beginning of the banking day, the Group had the right to use such cash and cash equivalents in its usual operating activities during the day without any restrictions. The NBU established the number of non-compliance cases for daily opening mandatory reserve balances on the correspondent account of ten times per month during 3 consequent months. Accordingly, the Group classifies minimal mandatory reserves with the NBU as cash and cash equivalents.

Starting from December 25, 2017, the NBU changed the requirements regarding the formation of a mandatory reserve on a correspondent account with the NBU. In accordance with the decision of the Board of the National Bank of Ukraine dated November 23, 2017, No. 752-rsh "On formation and storage of mandatory reserves", the control of the daily balance of the mandatory reserve at the correspondent account of the bank at the National Bank of Ukraine was canceled.

As at 31 December 2017 and 2016 the Bank was in compliance with the mandatory reserve requirements.

As at 31 December 2017, the Group’s cash and cash equivalents for the purposes of the statement of cash flows amounted to UAH 2 322 054 thousand (as at 31 December 2016: UAH 1 379 352 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 32. Information on related party balances is disclosed in Note 37.

As at 31 December 2017, the credit quality of cash and cash equivalents based on Moody’s ratings is summarised as follows:

In thousands of hryvnias	Cash balances with the NBU	Correspondent accounts with other banks	Deposit certificates of the NBU	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired					
- National Bank of Ukraine	464 525	-	172 185	-	636 710
- Aa1 - Aa3 rated	-	765 304	-	-	765 304
- A1 - A3 rated	-	462 984	-	-	462 984
- Baa1 - Baa3 rated	-	32 625	-	-	32 625
- Ba1 - Ba3 rated	-	5	-	-	5
- B1 – B3 rated	-	7 348	-	-	7 348
- Unrated	-	1 120	-	60 088	61 208
Total neither past due nor impaired	**464 525**	**1 269 386**	**172 185**	**60 088**	**1 966 184**
Impaired					
- Unrated	-	1 177	-	-	1 177
Total impaired	**-**	**1 177**	**-**	-	**1 177**
Less: impairment provisions	**-**	**(1 177)**	**-**	-	**(1 177)**
Total cash and cash equivalents, excluding cash funds	**464 525**	**1 269 386**	**172 185**	**60 088**	**1 966 184**

7 Cash and cash equivalents (continued)

As at 31 December 2016, the credit quality of cash and cash equivalents based on Moody's ratings is summarised as follows:

In thousands of hryvnias	Cash balances with the NBU	Correspondent accounts with other banks	Deposit certificates of the NBU	Total
Neither past due nor impaired				
- National Bank of Ukraine	335 548	-	285 532	621 080
- Aaa – Aa3 rated	-	167 845	-	167 845
- A1 - A3 rated	-	238 663	-	238 663
- Baa1 - Baa3 rated	-	89 841	-	89 841
- Ba1 - Ba3 rated	-	47 675	-	47 675
- B1 – B3 rated	-	5	-	5
- Unrated	-	3 349	-	3 349
Total neither past due nor impaired	**335 548**	**547 378**	**285 532**	**1 168 458**
Impaired				
- Unrated	-	1 090	-	1 090
Total impaired	**-**	**1 090**	**-**	**1 090**
Less: impairment provisions	**-**	**(1 090)**	**-**	**(1 090)**
Total cash and cash equivalents, excluding cash funds	**335 548**	**547 378**	**285 532**	**1 168 458**

As at 31 December 2017, the Group had a concentration of balances on current accounts with other credit institutions of UAH 1,129,228 thousand due from three largest banks with credit ratings of investment grade (as at 31 December 2016 – UAH 357,712 thousand).

8 Due from other banks

In thousands of hryvnias	2017	2016
Guarantee deposits	9 219	13 534
Loans due from banks	6 151	28 400
Total due from other banks	**15 370**	**41 934**

As at 31 December 2017, guarantee deposits include assets placed mostly as guarantee deposits for card settlements and transfers, as well as a documentary transaction. Loans due from banks are short-term loans to other banks with initial term of payment over 90 days.

Amounts due from other banks are not collateralised. The credit quality of due from banks outstanding as at 31 December 2017 based on Moody's ratings are as follows:

In thousands of hryvnias	Loans due from banks	Guarantee deposits	Total
Neither past due nor impaired			
- A1 - A3 rated	-	5 694	5 694
- Unrated	6 151	3 525	9 676
Total due from other banks	**6 151**	**9 219**	**15 370**

The credit quality of due from banks outstanding as at 31 December 2016 is as follows:

In thousands of hryvnias	Loans due from banks	Guarantee deposits	Total
Neither past due nor impaired			
- A2 rated	-	9 891	9 891
- Unrated	28 400	3 643	32 043
Total due from other banks	**28 400**	**13 534**	**41 934**

Refer to Note 35 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 32.

9 Loans and advances to customers

In thousands of hryvnias	**2017**	**2016**
Corporate loans	5 182 800	3 924 596
Loans to individuals - car loans	2 221 548	1 654 424
Loans to individuals - mortgage loans	881 514	708 603
Loans to individuals – other consumer loans	566 138	301 120
Less: Provision for loan impairment	(934 630)	(914 786)
Total loans and advances to customers	**7 917 370**	**5 673 957**

Movements in the provision for loan impairment during 2017 are as follows:

In thousands of hryvnias	**Corporate loans**	**Car loans**	**Other consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2017	**443 672**	**148 832**	**74 292**	**247 990**	**914 786**
Provision for impairment during the year	55 985	32 411	70 821	25 878	185 095
Loans and advances to customers sold and forgiven during the year	(57 428)	(57 753)	(29 588)	(22 639)	(167 408)
Amounts written off during the year as uncollectible	(6 003)	-	(86)	(1 012)	(7 101)
Translation differences	8 192	112	(40)	994	9 258
Provision for loan impairment at 31 December 2017	**444 418**	**123 602**	**115 399**	**251 211**	**934 630**

The provision for loan impairment for 2017 differs from the amount recognised in profit or loss for the year due to recovery of loans in the total amount of UAH 10,061 thousand that were written off as uncollectible in prior periods. This amount was recognised directly as the release of the provision in profit or loss for the year.

Movements in the provision for loan impairment during 2016 are as follows:

In thousands of hryvnias	**Corporate loans**	**Car loans**	**Other consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2016	**432 935**	**116 564**	**47 665**	**179 635**	**776 799**
Provision for impairment during the year	89 214	31 430	28 505	62 161	211 310
Loans and advances to customers sold and forgiven during the year	(65 013)	-	(2 076)	(5 157)	(72 246)
Amounts written off during the year as uncollectible	(9 366)	-	-	-	(9 366)
Translation differences	(4 098)	838	198	11 351	8 289
Provision for loan impairment at 31 December 2016	**443 672**	**148 832**	**74 292**	**247 990**	**914 786**

9 Loans and advances to customers (continued)

The provision for loan impairment for 2016 differs from the amount recognised in profit or loss for the year due to recovery of loans in the total amount of UAH 4,683 thousand that were written off as uncollectible in prior periods. This amount was recognised directly as the release of the provision in profit or loss for the year.

The amount of movement in the provision shown in the table above in respect of loans sold during the year includes the amount of the provision written-off.

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

	2017		**2016**	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	3 669 200	42	2 664 147	41
Agriculture and food processing	1 680 162	19	1 321 104	20
Manufacturing	1 449 095	16	876 002	13
Trade	1 331 696	15	1 102 379	17
Other services	306 187	4	287 758	4
Health resorts	110 288	1	99 049	2
Real estate and construction	104 358	1	60 283	1
Transportation	104 334	1	57 094	1
Mining	5 179	-	20 231	-
Financial services	3 036	-	3 775	-
Hotels	374	-	4 864	-
Sports and recreation services	132	-	226	-
Other	87 959	1	91 831	1
Total loans and advances to customers (before impairment)	**8 852 000**	**100**	**6 588 743**	**100**

At 31 December 2017, the total gross exposure of top 10 borrowers of the Group was UAH 767,097 thousand (31 December 2016: UAH 775,975 thousand), or 9% of the gross loan portfolio (31 December 2016: 12%).

As at 31 December 2017, loans and advances to customers in the amount of UAH 229,731 thousand (31 December 2016: UAH 124,463 thousand) were secured by deposits in the amount of UAH 270,200 thousand (31 December 2016: UAH 157,990 thousand). See Note 17.

Information on collateral as at 31 December 2017 is summarised below:

In thousands of hryvnias	**Corporate loans**	**Car loans**	**Consumer loans**	**Mortgage loans**	**Total**
Unsecured loans	772 599	158 938	563 164	164 828	1 659 529
Loans collateralised by:					-
- cash deposits	229 304	-	427	-	229 731
- residential real estate	120 979	-	511	668 252	789 742
- other real estate	2 056 241	-	928	45 888	2 103 057
- other assets	2 003 677	2 062 610	1 108	2 546	4 069 941
Total loans and advances to customers (before impairment)	**5 182 800**	**2 221 548**	**566 138**	**881 514**	**8 852 000**

9 Loans and advances to customers (continued)

Information on collateral as at 31 December 2016 is summarised below:

In thousands of hryvnias	Corporate loans	Car loans	Consumer loans	Mortgage loans	Total
Unsecured loans	451 564	236 262	297 900	195 223	1 180 949
Loans collateralised by:					-
- cash deposits	123 864	-	598	-	124 462
- residential real estate	64 445	-	866	457 512	522 823
- other real estate	1 768 625	-	1 490	45 954	1 816 069
- other assets	1 516 098	1 418 162	266	9 914	2 944 440
Total loans and advances to customers (before impairment)	**3 924 596**	**1 654 424**	**301 120**	**708 603**	**6 588 743**

Other assets mainly include equipment, other movable property and property rights for future real estate. The disclosure above represents the lower of the carrying value of the loan or fair value of collateral taken as at 31 December, depending on what is the lowest amount; the remaining part is disclosed within the unsecured exposures. The carrying value of the loans was allocated based on liquidity of the collateralised assets.

Credit quality analysis of the loans outstanding as at 31 December 2017 is presented below:

In thousands of hryvnias	Corporate loans	Car loans	Other consumer loans	Mortgage loans	Total
Neither past due nor impaired	**4 644 394**	**2 096 040**	**493 230**	**600 894**	**7 834 558**
Past due but not impaired					
- less than 30 days overdue	31 263	15 650	21 185	4 492	72 590
- 30 to 90 days overdue	5 074	12 204	10 573	1 972	29 823
- 91 to 180 days overdue	1	-	414	-	415
- 181 to 360 days overdue	12	-	119	-	131
- over 360 days overdue	3	-	87	1 034	1 124
Total past due but not impaired	**36 353**	**27 854**	**32 378**	**7 498**	**104 083**
Loans determined to be impaired					
- not yet past due	120 651	5 941	4 373	57 974	188 939
- less than 30 days overdue	658	679	178	171	1 686
- 30 to 90 days overdue	1 406	594	438	3 473	5 911
- 91 to 180 days overdue	14 259	10 648	17 937	4 524	47 368
- 181 to 360 days overdue	43 176	16 386	7 975	7 479	75 016
- over 360 days overdue	321 903	63 406	9 629	199 501	594 439
Total impaired loans	**502 053**	**97 654**	**40 530**	**273 122**	**913 359**
Less: impairment provisions	**(444 418)**	**(123 602)**	**(115 399)**	**(251 211)**	**(934 630)**
Total loans and advances to customers	**4 738 382**	**2 097 946**	**450 739**	**630 303**	**7 917 370**

9 Loans and advances to customers (continued)

The Group classifies loans and advances to customers by credit quality based on the borrower's financial condition and ability to service the debt.

Credit quality analysis of the loans outstanding as at 31 December 2016 is presented below:

In thousands of hryvnias	Corporate loans	Car loans	Other consumer loans	Mortgage loans	Total
Neither past due nor impaired	**3 326 633**	**1 490 312**	**248 973**	**383 758**	**5 449 676**
Past due but not impaired					
- less than 30 days overdue	2 078	17 816	5 998	2 978	28 870
- 30 to 90 days overdue	3 371	7 169	4 078	5 300	19 918
- 91 to 180 days overdue	814	-	209	281	1 304
- 181 to 360 days overdue	398	-	191	-	589
- over 360 days overdue	71	-	908	2 098	3 077
Total past due but not impaired	**6 732**	**24 985**	**11 384**	**10 657**	**53 758**
Loans determined to be impaired					
- not yet past due	182 493	5 045	2 376	56 920	246 834
- less than 30 days overdue	1 816	643	383	515	3 357
- 30 to 90 days overdue	3 600	1 034	100	12 980	17 714
- 91 to 180 days overdue	22 871	4 984	3 033	6 959	37 847
- 181 to 360 days overdue	2 744	11 234	3 227	11 074	28 279
- over 360 days overdue	377 707	116 187	31 644	225 740	751 278
Total impaired loans	**591 231**	**139 127**	**40 763**	**314 188**	**1 085 309**
Less: impairment provisions	**(443 672)**	**(148 832)**	**(74 292)**	**(247 990)**	**(914 786)**
Total loans and advances to customers	**3 480 924**	**1 505 592**	**226 828**	**460 613**	**5 673 957**

The Group applied the portfolio provisioning methodology prescribed by IAS 39 *Financial Instruments: Recognition and Measurement*, and created provisions for impairment losses on individually impaired loans and collectively impaired loans that, based on past events for loans with similar characteristics, were incurred, but could not yet be specifically identified with any individual loan by the reporting date. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified.

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements exceed its carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements equal to their carrying value or are lower than their carrying value ("under-collateralised assets"). The analysis below covers only the individually impaired loans.

9 Loans and advances to customers (continued)

The effect of collateral on individually impaired loans as at 31 December 2017 is summarised below:

	Over-collateralised assets		Under-collateralised assets	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	75 394	104 498	121 635	110 561
Mortgage loans	16 641	24 208	20 871	13 603
Consumer loans	928	1 026	26	-
Car loans	-	-	3 505	3 371
Total	**92 963**	**129 732**	**146 037**	**127 535**

The effect of collateral on individually impaired loans as at 31 December 2016 is summarised below:

	Over-collateralised assets		Under-collateralised assets	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	82 763	136 127	174 394	133 922
Mortgage loans	13 154	21 466	62 330	50 009
Consumer loans	-	-	1 391	1 200
Car loans				
Total	**95 917**	**157 593**	**238 115**	**185 131**

For remaining commercial loans without specifically identified impairment, the fair value of collateral was estimated at the inception of the loans and is adjusted for subsequent changes in value once a year in line with the significant market changes in value for real estate or for other pledged assets in accordance with the Group's policies and procedures.

The fair value of collateral is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, discounted for the time required for its recovery and disposal. This amount includes possible costs of debt recovery through the foreclosure such as court expenses, disposal costs and other costs related to debt recovery through the foreclosure.

The fair value of real estate properties at the end of the reporting period is based on the actual expert opinion of the firm of independent appraisers engaged by the Group on a contractual basis or by the internal appraiser who holds a relevant qualification certificate, which are not related (affiliates, related parties, associates) to the Group according to the legislation.

The Group's credit risk management policies and procedures are described in Note 32. The maximum credit risk exposure represents the carrying value of loans and advances at the relevant reporting date.

Collateral and other ways to improve the quality of loans and advances are described below.

The Group accepts the following types of collateral:

- Loans to individuals – residential mortgage property and vehicles;
- Loans to legal entities and industrial companies – corporate properties such as premises, shares, accounts receivable and third party guarantees;
- Commercial real estate development – real property for which the financing has been received.

Although collateral might be an important factor to mitigate the credit risk, the Group's policy provides for granting loans primarily based on the customer's creditworthiness rather than the proposed collateral value. Depending on the customer's condition and banking product, loans may be issued without taking collateral.

9 Loans and advances to customers (continued)

Included to loans are finance lease receivables. The table below summarizes reconciliation between gross investments in lease and present value of minimal lease payments as at 31 December 2017:

In thousands of hryvnias	**Gross investment in lease**	**Present value of minimum lease payments**	**Unrealized financial income**
Finance lease receivables			
- Less than 1 year	126 355	92 874	33 481
- from 1 to 5 years	152 526	117 799	34 727
- over 5 years	3 588	2 592	996
Less: impairment provisions	**(5 065)**	**(5 065)**	**-**
Total after deduction of provision for impairment	**277 404**	**208 200**	**69 204**

The table below summarizes reconciliation between gross investments in lease and present value of minimal lease payments as at 31 December 2016:

In thousands of hryvnias	**Gross investment in lease**	**Present value of minimum lease payments**	**Unrealized financial income**
Finance lease receivables			
- Less than 1 year	5 746	2 325	3 421
- from 1 to 5 years	15 133	6 585	8 548
- over 5 years	4 155	2 710	1 445
Less: impairment provisions	**(209)**	**(209)**	**-**
Total after deduction of provision for impairment	**24 825**	**11 411**	**13 414**

The Group's assets located in the Autonomous Republic of Crimea and the territories out of control of the Ukrainian authorities in eastern part of Ukraine (i.e. part of Donetsk and Lugansk regions) include loans and advances to customers:

In thousands of hryvnias	**31 December 2017**	**31 December 2016**
In Donetsk and Lugansk regions		
- loan indebtedness	24 287	91 309
- loan loss provision	(24 287)	(87 136)
- loans after impairment	-	4 173
In AR Crimea		
- loan indebtedness	34 803	75 133
- loan loss provision	(34 532)	(74 569)
- loans after impairment	271	564

Refer to Note 35 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 32. Information on related party balances is disclosed in Note 37.

10 Investment securities available-for-sale

In thousands of hryvnias	2017	2016
Ukrainian government bonds	1 924 295	1 435 825
Corporate shares	30	30
Total investment securities available for sale	**1 924 325**	**1 435 855**

As at 31 December 2017, sovereign credit rating of Ukraine assigned by Standard & Poor's is B- (31 December 2016: B-).

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

In thousands of hryvnias	Ukrainian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- Ukrainian government	1 924 295	-	1 924 295
Total neither past due nor impaired	1 924 295	-	1 924 295
Impaired			
- Unrated	-	23 261	23 261
Total impaired	**-**	**23 261**	**23 261**
Less: impairment provisions	**-**	**(23 261)**	**(23 261)**
Total debt securities available for sale	**1 924 295**	**-**	**1 924 295**

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

In thousands of hryvnias	Ukrainian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- Ukrainian government	1 435 825	-	1 435 825
Total neither past due nor impaired	1 435 825	-	1 435 825
Impaired			
- Unrated	-	23 261	23 261
Total impaired	**-**	**23 261**	**23 261**
Less: impairment provisions	**-**	**(23 261)**	**(23 261)**
Total debt securities available for sale	**1 435 825**	**-**	**1 435 825**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. As a result, the Group presents above an ageing analysis of debt securities that are individually determined to be impaired. The debt securities are not collateralised.

Interest rate analysis of investment securities available-for-sale is disclosed in Note 32.

11 Investment securities held-to-maturity

In thousands of hryvnias	2017	2016
Ukrainian government bonds	1 185 365	1 712 872
Total investment securities held to maturity	**1 185 365**	**1 712 872**

As at 31 December 2017, sovereign credit rating of Ukraine assigned by Standard & Poor's is B- (31 December 2016: B-).

As of December 31, 2017, government bonds with a fair value of UAH 57,684 thousand were provided for collateral under the loan of the German-Ukrainian Fund (see Note 18).

Refer to Note 35 for the disclosure of the fair value of investment securities. Interest rate analysis of investment securities is disclosed in Note 32.

12 Investment property

In thousands of hryvnias	Note	2017	2016
Investment properties at fair value at 1 January		**10 711**	**8 928**
Transfer from real estate occupied by the Group	13	6 607	4 037
Transfer to real estate occupied by the Group	13	(2 726)	(2 228)
Other adjustments of value		-	(26)
Investment properties at fair value at 31 December		**14 592**	**10 711**

As at 31 December 2017 and 31 December 2016, investment properties include commercial premises held by the Group to earn rental income, which were transferred from premises and leasehold improvements.

Information on income from operating lease is disclosed in Note 27.

As at 31 December 2017 and 31 December 2016, fair value of the Group's investment properties was determined based on the reports of internal appraiser who holds the relevant professional qualification and has recent experience in valuation of property of the similar category and location. Valuation is based on market value of assets.

Premises were not reassessed, as the difference between the carrying value and market value of premises was not significant as at 31 December 2017 and 31 December 2016.

13 Premises, leasehold improvements, equipment and intangible assets

In thousands of hryvnias	Note	Premises and leasehold improvements	Computer and equipment	Security systems, Furniture and fixtures	Motor vehicles	Unfinished construc-tion	Total premises, leasehold improve-ments and equipment	Computer software licences	Total
Cost as at 1 January 2016		318 824	238 194	102 964	22 880	6 815	689 677	128 855	818 532
Accumulated depreciation		(34 298)	(137 052)	(52 118)	(9 510)	-	(232 978)	(68 962)	(301 940)
Net book value as at 1 January 2016		**284 526**	**101 142**	**50 846**	**13 370**	**6 815**	**456 699**	**59 893**	**516 592**
Additions		12 622	106 762	48 196	8 232	29 474	205 286	27 766	233 052
Transfers to other category		-	(5 421)	12 236	-	(6 815)	-	-	-
Transfers to other category - accumulated depreciation and amortisation		-	5 391	(5 391)	-	-	-	-	-
Disposal – cost/fair value		(4 068)	(4 340)	(9 167)	(1 617)	-	(19 192)	(3 256)	(22 448)
Disposal – accumulated depreciation		3 284	4 266	7 026	1 283		15 859	3 121	18 980
Depreciation charge	28	(10 691)	(25 730)	(17 935)	(3 358)	-	(57 714)	(26 195)	(83 909)
Transfers to investment property	12	(4 037)	-	-	-	-	(4 037)	-	(4 037)
Transfers from investment property	12	2 228	-	-	-	-	2 228	-	2 228
Net book value as at 31 December 2016		**283 864**	**182 070**	**85 811**	**17 910**	**29 474**	**599 129**	**61 329**	**660 458**
Cost as at 31 December 2016		325 569	335 195	154 229	29 495	29 474	873 962	153 365	1 027 327
Accumulated depreciation		(41 705)	(153 125)	(68 418)	(11 585)	-	(274 833)	(92 036)	(366 869)
Net book value as at 31 December 2016		**283 864**	**182 070**	**85 811**	**17 910**	**29 474**	**599 129**	**61 329**	**660 458**
Additions		29 523	106 183	101 524	12 029	5 288	254 547	53 184	307 731
Transfers to other category		11 517	-	16 639	-	(28 578)	(422)	422	-
Disposal – cost/fair value		(22 232)	(11 233)	(8 532)	-	-	(41 997)	(1 628)	(43 625)
Disposal – accumulated depreciation		4 993	10 887	6 258	-	-	22 138	1 626	23 764
Depreciation charge	28	(12 332)	(36 720)	(26 366)	(4 669)	-	(80 087)	(30 378)	(110 465)
Transfers to investment property	12	(6 607)	-	-	-	-	(6 607)	-	(6 607)
Transfer to finance leases						(471)	(471)		(471)
Transfers from investment property	12	2 726	-	-	-	-	2 726	-	2 726
Cost as at 31 December 2017.		**291 452**	**251 187**	**175 334**	**25 270**	**5 713**	**748 956**	**84 555**	**833 511**
Accumulated depreciation and amortisation		340 496	430 145	263 860	41 524	5 713	1 081 738	205 343	1 287 081
Accumulated ddepreciation		(49 044)	(178 958)	(88 526)	(16 254)	-	(332 782)	(120 788)	(453 570)
Net book value as at 31 December 2017		**291 452**	**251 187**	**175 334**	**25 270**	**5 713**	**748 956**	**84 555**	**833 511**

As at 31 December 2017, the cost of fully depreciated equipment that is still in use is UAH 94,877 thousand (31 December 2016: UAH 77,506 thousand), and the cost of fully amortised intangible assets that are still in use is UAH 20,056 thousand (31 December 2016: UAH 22,866 thousand).

As at 31 December 2017 and 31 December 2016, the Group has no premises and equipment of which ownership, use and disposal are limited by laws of Ukraine. The Group also has neither pledged property, equipment and intangible assets, nor property and equipment disposed from use for their further sale. However, there are some limitations in the title to software licenses used by the Group.

13 Premises, leasehold improvements, equipment and intangible assets (comtinued)

The Group's premises are measured at market value as at 31 December 2017. Premises were not reassessed, as the difference between carrying value and market value of the premises was not significant as at 31 December 2017 and 31 December 2016. The valuation was based on a comparative sales method and was carried out by the internal valuer who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. For each real estate property from four to five comparables were selected based on the following criteria: location, type, condition and size. Adjustments were applied for a price representing an offer rather than an actual transaction (bargain discount), location, size, floor and condition and other adjustments. Bargain discount applied by the internal valuer was usually in the range from 10% to 15%. Other adjustments applied by the internal valuator were usually in the range from 10% to 15%. The evaluator used only a comparative method to evaluate all objects of property, plant and equipment.

The fair values of the Group's buildings are categorised into Level 3 of the fair value hierarchy.

If the assets were recognized at cost less depreciation, the carrying value of the premises and leasehold improvements would amount to UAH 149,150 thousand as at 31 December 2017 (31 December 2016: UAH 159,181 thousand).

14 Other financial assets

In thousands of hryvnias	**2017**	**2016**
Receivables from operations with customers and banks	18 458	20 535
Receivables from operations with plastic cards	14 674	6 705
Accrued income receivable	6 410	11 922
Non-confirmed cash	3 733	4 780
Provision for impairment	(8 587)	(13 831)
Total other financial assets	**34 688**	**30 111**

Movements in the provision for impairment of other financial assets during 2017 are as follows:

In thousands of hryvnias	**Accrued income receivable**	**Non-confirmed cash**	**Receivables from operations with customers and banks**	**Total**
Provision for impairment as at 1 January 2017	**9 051**	**4 780**	**-**	**13 831**
Provision for impairment during the year	577	(1 036)	320	(139)
Amounts written off during the year as uncollectible	(5 094)	(12)	-	(5 106)
Translation differences	-	1	-	1
Provision for impairment as at 31 December 2017	**4 534**	**3 733**	**320**	**8 587**

Movements in the provision for impairment of other financial assets during 2016 are as follows:

In thousands of hryvnias	**Accrued income receivable**	**Non-confirmed cash**	**Total**
Provision for impairment as at 1 January 2016	**8 800**	**1 030**	**9 830**
Provision for impairment during the year	663	3 733	4 396
Amounts written off during the year as uncollectible	(412)	-	(412)
Translation differences	-	17	17
Provision for impairment as at 31 December 2016	**9 051**	**4 780**	**13 831**

14 Other financial assets (continued)

Analysis by credit quality of other financial assets at 31 December 2017 is as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Non-confirmed cash	Total
Neither past due nor impaired	1 186	18 138	14 674	-	**33 998**
Total neither past due nor impaired	**1 186**	**18 138**	**14 674**	**-**	**33 998**
Receivables individually determined to be impaired					
- not overdue	-	320	-	3 733	4 053
- less than 30 days overdue	77	-	-	-	77
- 31 to 90 days overdue	477	-	-	-	477
- 91 to 180 days overdue	552	-	-	-	552
- 181 to 360 days overdue	1 313	-	-	-	1 313
- over 360 days overdue	2 805	-	-	-	2 805
Total individually impaired (gross)	5 224	320	-	3 733	9 277
Less impairment provision	**(4 534)**	**(320)**	**-**	**(3 733)**	**(8 587)**
Total other financial assets	**1 876**	**18 138**	**14 674**	**-**	**34 688**

Analysis by credit quality of other financial assets at 31 December 2016 is as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Non-confirmed cash	Total
Neither past due nor impaired	2 429	20 535	6 705	-	**29 669**
Total neither past due nor impaired	**2 429**	**20 535**	**6 705**	**-**	**29 669**
Receivables individually determined to be impaired (gross)					
- not overdue	-	-	-	4 780	4 780
- less than 30 days overdue	425	-	-	-	425
- 31 to 90 days overdue	273	-	-	-	273
- 91 to 180 days overdue	328	-	-	-	328
- 181 to 360 days overdue	793	-	-	-	793
- over 360 days overdue	7 674	-	-	-	7 674
Total individually impaired (gross)	9 493	-	-	4 780	14 273
Less impairment provision	**(9 051)**	**-**	**-**	**(4 780)**	**(13 831)**
Total other financial assets	**2 871**	**20 535**	**6 705**	**-**	**30 111**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status. As a result, the Group presents above an ageing analysis of receivables that are individually determined to be impaired. Other receivables generally are not collateralised.

Information on related party balances is disclosed in Note 37.

15 Other non-financial assets

In thousands of hryvnias	2017	2016
Prepayments for goods and construction in progress	48 504	67 751
Prepaid expenses	32 864	27 562
Prepayment for services	13 404	9 058
Inventory	8 647	6 010
Repossessed collateral and assets for sale	1 612	1 712
Receivables from settlements with employees and other	1 609	1 711
Prepaid taxes other than income tax	229	293
Provision for impairment of other non-financial assets	(5 280)	(8 449)
Total other non-financial assets	**101 589**	**105 648**

16 Due to other banks

In thousands of hryvnias	2017	2016
Correspondent accounts and overnight placements of other banks	1 431 054	919 366
Term placements and loans from other banks	456 881	377 802
Total due to other banks	**1 887 935**	**1 297 168**

As at 31 December 2017, term deposits and loans include UAH 263,436 thousand (as at 31 December 2016: UAH 332,764 thousand) received from PKO BP S.A. and correspondent accounts and overnight deposits of other banks include UAH 749,221 thousand (31 December 2016: UAH 624,408 thousand) of balances on accounts of PKO BP S.A.

As at 31 December 2017, the Group has pledged the following assets and equity instruments as collateral for borrowings:

- Property rights for cash and deposits placed with the Bank in amount of UAH 1,758 thousand (31 December 2016: UAH 2,101 thousand);
- 100% of the Bank's rights for participant's capital belonging in subsidiary (31 December 2016: 100%);
- Property rights for all debts purchased by the Bank's subsidiary in the amount of UAH 60,729 thousand (31 December 2016: UAH 79,361 thousand).

Refer to Note 35 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 32. Information on related party balances is disclosed in Note 37.

17 Customer accounts

In thousands of hryvnias	2017	2016
Legal entities		
- Current/settlement accounts	4 076 017	3 044 170
- Term deposits	1 841 486	1 245 031
Individuals		
- Current/demand accounts	1 683 617	1 107 119
- Term deposits	3 291 512	2 774 543
Total customer accounts	**10 892 632**	**8 170 863**

Economic sector concentrations within customer accounts are as follows:

	2017		2016	
In thousands of hryvnias	Amount	%	Amount	%
Individuals	4 975 129	46	3 881 662	48
Manufacturing	1 192 681	11	1 017 188	12
Trade	1 157 986	11	768 940	9
Other services	1 225 817	11	721 936	9
Financial services	760 798	7	481 474	6
Real estate	454 736	4	391 294	5
Agriculture	230 564	2	165 613	2
Transport and communication	176 195	2	130 883	2
Other	718 726	6	611 873	7
Total customer accounts	**10 892 632**	**100**	**8 170 863**	**100**

As at 31 December 2017, the Group had 114 customers (31 December 2016: 74 customers) with balances above UAH 10,000 thousand each. The aggregate balance on accounts of these customers was UAH 2,951,936 thousand (31 December 2016: UAH 1,809,040 thousand), or 27% (31 December 2016: 22%) of total customer accounts.

As at 31 December 2017, included in customer accounts are deposits of UAH 10,914 thousand (31 December 2016: UAH 6,459 thousand) held as collateral for guarantees issued. Refer to Note 34.

As at 31 December 2017, included in current accounts of individuals are prepayments at loan agreements totalling UAH 105,861 thousand that are not due (31 December 2016: UAH 60,337 thousand).

As at 31 December 2017, included in customer accounts are deposits totalling UAH 270,200 thousand (31 December 2016: UAH 157,990 thousand) held as collateral for loans granted to customers totalling UAH 229,731 thousand (31 December 2016: UAH 124,463 thousand). Refer to Note 9.

Refer to Note 35 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 32. Information on related party balances is disclosed in Note 37.

18 Due to other financial institutions

In thousands of hryvnias	Note	2017	2016
German-Ukrainian Foundation		102 465	-
Other	37	5 400	-
Total other financial institutions		**107 865**	**-**

In October 2017, the Group received a loan for a term of two years from the German-Ukrainian Fund (NUF) in the amount of 100,000 thousand hryvnias at the rate of UIRD 3 months. (UIRD - Ukrainian Index of Retail Deposit Rates) multiplied by a factor of 0.9, which is 12.123% as at 31 December 2017. According to the agreement, the funds are directed to lending to small and medium enterprises within the framework of the Small and Medium Enterprises Support Program in Ukraine.

Accrued interest expenses during 2017 amounted to UAH 2,715 thousand. Interest payments were not made.

The Group pledged government bonds with a total nominal value of UAH 55,556 thousand as collateral under loan obtained, the fair value of bonds provided as collateral as at 31 December 2017 is UAH 57,684 thousand (see Note 11).

Category other includes a loan received from a company under common control (see Note 37).

As at 31 December 2017, the Group complied with covenants for a loan received from NUF.

19 Debt securities

In 2017, the Group performed placement with a total nominal value of UAH 250,000 thousand, as well as redeemed 245,300 bonds with a total nominal value of UAH 245,300 thousand. The Bank may sell redeemed bonds at any time. As at the date of issue of these consolidated financial statements, these bonds were afloat and were included in the stock exchange listing of such stock exchanges: PUBLIC JOINT-STOCK COMPANY "UKRAINIAN EXCHANGE" and PUBLIC JOINT STOCK COMPANY "STOCK EXCHANGE" PERSPECTYVA" As at 31 December 2017, the Group's liabilities under nominal value bonds totaled UAH 4,700 thousand. The issue of the aforementioned bonds was carried out within the framework of the prospectus registered by the National Commission on Securities and Stock Market for a total amount of UAH 500,000 thousand

20 Other financial liabilities

Other financial liabilities are presented as follows:

In thousands of hryvnias	Note	2017	2016
Other accrued liabilities		30 433	18 655
Funds in settlements		24 533	22 918
Provision for credit related commitments	34	104	230
Accounts payable at factoring agreements		-	18 714
Due to the Deposit Guarantee Fund		-	3 105
Other		34	127
Total other financial liabilities		**55 104**	**63 749**

Provision for credit related commitments represents specific provisions for losses on financial guarantees and letters of credit provided to customers whose financial conditions deteriorated.

Refer to Note 35 for disclosure of fair value of each class of other financial liabilities.

21 Other non-financial liabilities

Other non-financial liabilities are presented as follows:

In thousands of hryvnias	2017	2016
Accrued employee benefit costs	70 947	55 235
Provision for other non financial liabilities	9 313	2 929
Amounts payable to Individuals' Deposits Guarantee Fund	8 592	6 990
Taxes payable other than on income	5 928	6 196
Deferred income	5 307	22 570
Other	2 558	1 001
Total other non-financial liabilities	**102 645**	**94 921**

Expenses for provision for legal claims against the bank amount to UAH 8,520 thousand in 2017 (2016: UAH 2,606 thousand).

22 Subordinated debt

During 2009, the Bank received from PKO BP S.A. a subordinated debt in the amount of USD 20,000 thousand at interest rate of 1-month LIBOR+6.5% p.a. The agreement was registered by the National Bank of Ukraine on 9 November 2009. The debt was repaid under the terms of the agreement on November 6, 2017.

In thousands of hryvnias	2017	*2016*
Balance at 1 January	**557 904**	**516 946**
Repayment of subordinated debt	(539 253)	-
Impact of changes in exchange rates of foreign currencies	(4 856)	66 663
Accrued interest expense	10 020	8 077
Interest paid	(23 815)	(33 782)
Balance at 31 December	**-**	**557 904**

23 Share capital

In thousands of hryvnias, except for number of shares	Number of outstanding shares	Nominal amount	Total
At 1 January 2016	191 896 946 916	1 918 969	1 918 969
At 31 December 2016	224 896 946 916	2 248 969	2 248 969
At 31 December 2017	224 896 946 916	2 248 969	2 248 969

The share capital of the Bank amounts to UAH 2,248,969 thousand (2016: UAH 2,248,969 thousand).

As at 31 December 2017, the total number of issued shares, at which the reports on placement results were registered, comprised 224 896 946 916 (31 December 2016: 224 896 946 916) ordinary shares with nominal value of UAH 0.01 per share. All ordinary shares have equal voting rights.

During 2015, PKO BP SA purchased 33 000 000 000 of the Bank's shares with the total value of UAH 330,000 thousand and paid nominal value of the shares of UAH 0.01 per share. As at 31 December 2015 the relevant amendments to the Charter on increase of share capital have not been made.

On 24 May 2016 the new Bank's Charter was registered with the Unified State Register of Legal Entities, Private Entrepreneurs and Public Unions. This new Charter was approved by the Shareholders' Meeting on 27 April 2016.

The new Charter was approved due to increase of the Bank's share capital from UAH 1,918,969 thousand to UAH 2,248,969 thousand.

The National Committee on Securities and Stock Exchange registered the relevant report on the results of placing of new issue shares.

23 Share capital (continued)

As at 31 December 2017 all ordinary shares were fully paid and registered.

The Group's shareholder structure is presented below:

Shareholder	Year 2017	Year 2016
PKO BP S.A.	99,63%	99,63%
Other (resident and non-resident shareholders)	0,37%	0,37%
Total	**100,00%**	**100,00%**

The Bank's management holds 12,700 ordinary registered shares with total nominal value of UAH 127 that represent 0.000006% of the Bank's share capital.

24 Other comprehensive income recognized in equity

Analysis of other comprehensive income by equity component item is as follows:

In thousands of hryvnias	**Revaluation reserve for investment securities available for sale**	**Revaluation reserve for premises**	**Total**
Year ended 31 December 2016			
Investment securities available-for-sale:			
- Net change in fair value of investment securities available-for-sale	(13 731)	-	(13 731)
- Net change in fair value of investment securities available-for-sale transferred to profit or loss	7 806	-	7 806
Revaluation of premises and equipment:			
- Revaluation of items which were transferred from owner occupied property to investment property on the date of change in use	-	73	73
Total other comprehensive income	**(5 925)**	**73**	**(5 852)**
Year ended 31 December 2017			
Investment securities available-for-sale:			
- Net change in fair value of investment securities available-for-sale	11 034	-	11 034
- Net change in fair value of investment securities available-for-sale transferred to profit or loss	2 406	-	2 406
Total other comprehensive loss	**13 440**	**-**	**13 440**

25 Interest income and expense

In thousands of hryvnias	**2017**	**2016**
Interest income		
Loans and advances to legal entities	657 599	573 574
Loans and advances to individuals	593 468	382 190
Investment securities available-for-sale	163 136	155 439
Investment securities held to maturity	106 567	147 840
Due from other banks	6 325	12 311
Deposit certificates of the NBU	6 296	32 797
Securities at fair value through profit or loss	-	209
Total interest income	**1 533 391**	**1 304 360**
Interest expense		
Customer accounts of individuals	254 791	254 722
Customer accounts of legal entities	155 261	115 983
Due to other banks	35 297	60 931
Subordinated debt	10 020	8 077
Debt securities	1 836	-
Amounts due to the National Bank of Ukraine	119	-
Other	14	-
Total interest expense	**457 338**	**439 713**
Net interest income	**1 076 053**	**864 647**

Interest income on impaired financial assets amounts to UAH 56,063 thousand for 2017 (2016: UAH 90,990 thousand).

Information on interest income and expense on transactions with related parties is disclosed in Note 37.

26 Fee and commission income and expense

In thousands of hryvnias	**2017**	**2016**
Fee and commission income		
Cash and settlement transactions	367 146	264 610
Purchase and sale of foreign currency	91 788	67 969
Agency fee from insurance companies	7 725	5 122
Guarantees issued and other documentary	3 187	4 485
Other	10 015	3 813
Total fee and commission income	**479 861**	**345 999**
Fee and commission expense		
Cash and settlement transactions	90 260	60 886
Received guarantees and other documentary transactions	680	1 527
Transactions with securities	347	391
Other	10	4
Total fee and commission expense	**91 297**	**62 808**
Net fee and commission income	**388 564**	**283 191**

Information on fee and commission income and expense on transactions with related parties is disclosed in Note 37.

27 Other operating income

In thousands of hryvnias	2017	2016
Gain from disposal of premises and equipment	9 427	843
Support of operations from partner companies	8 215	1 106
Penalties and fine received	5 738	4 381
Income from purchased loans	2 963	-
Income from operating leases	2 087	2 339
Reimbursement of legal expenses	1 112	848
Income from transactions with construction financing fund	380	1 292
Insurance compensations	248	166
Enrollment in income balances on which the statute of limitations has expired	147	1 431
Other	928	914
Total other operating income	**31 245**	**13 320**

28 Administrative and other operating expenses

In thousands of hryvnias	Note	2017	2016
Staff costs		363 768	293 078
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	13	110 465	83 909
Repair and maintenance of premises and equipment and software maintenance		103 483	90 694
Operating lease expense for premises		71 143	64 535
Utilities		39 706	34 105
Communication		35 642	23 924
Contributions to Individuals Deposit Guarantee Fund		33 327	23 004
Professional services		22 891	16 653
Security services		21 462	12 165
Advertising and marketing services		17 138	14 260
Taxes other than on income		8 904	7 119
Business trips		6 769	5 688
Charity		1 173	876
Other		47 070	37 634
Total administrative and other operating expenses		**882 941**	**707 644**

No discretionary pensions or other post-employment benefits are provided by the Group.

29 Income tax

(a) Components of income tax expense

Components of income tax expense are presented as follows:

In thousands of hryvnias	**2017**	**2016**
Current tax	85 604	69 508
Deferred tax	6 859	5 625
Income tax (credit)/expense for the year	**92 463**	**75 133**

(a) Reconciliation of tax expense and profit or loss multiplied by applicable tax rate

The Group's applicable income tax rate for majority of Group's income is 18% (2016: 18%). Reconciliation of expected and actual income tax expense is presented as follows:

In thousands of hryvnias	**2017**	**2016**
Profit before tax	**476 991**	**276 183**
Expected income tax benefit at applicable tax rate (2017: 18%; 2016: 18%)	85 858	49 713
Tax effect of items which are not deductible or taxable for taxation purposes:		
- Income not recognised for tax purposes	(1 475)	-
- Income recognised for tax purposes only		9 625
- Debt forgiveness expenses and charges to provisions not recognized for tax purposes	444	5 123
- Other non-deductible expenses	3 048	5 651
- Unrecognized deferred tax asset of the Group's subsidiary	1 871	2 427
- Tax loss of the Group's subsidiary carried forward		-
- Effect of changes in approaches to recognition of temporary differences and other	2 717	2 594
Income tax expense for the year	**92 463**	**75 133**

(c) Deferred taxes by type of temporary differences

Differences between IFRS and statutory tax regulations in Ukraine give rise to temporary differences between carrying amounts of assets and liabilities used for financial reporting purposes and their tax bases. Tax effect of movements in these temporary differences is presented as follows:

In thousands of hryvnias	**1 January 2017**	**Credited/ (charged) to profit or loss for the year**	**31 December 2017**
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	17 128	239	17 367
Provisions for impairment	8 254	(5 887)	2 367
Estimation of fair value of securities	1 211	(1 211)	-
Tax losses carried forward	9 999	1 872	11 871
Unrecognised tax asset	(9 177)	(2 694)	(11 871)
Unamortised income from initial recognition of financial instruments	(822)	822	-
Net deferred tax asset	**26 593**	**(6 859)**	**19 734**

29 Income tax (continued)

In thousands of hryvnias	**1 January 2016**	**Credited/ (charged) to profit or loss for the year**	**31 December 2016**
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	15 314	1 814	17 128
Provisions for impairment and other expenses	14 482	(6 228)	8 254
Estimation of fair value of securities	2 422	(1 211)	1 211
Tax losses carried forward	8 068	1 931	9 999
Unrecognised tax asset	(3 781)	(5 396)	(9 177)
Unamortised income from initial recognition of financial instruments	(4 287)	3 465	(822)
Net deferred tax asset	**32 218**	**(5 625)**	**26 593**

The recognized deferred tax asset is the amount of income tax that may be credited against future income taxes and is recognized in the statement of financial position. Deferred income tax assets are recognized only to the extent that it is probable that the tax credit will be used. Estimation of future taxable profits and the amount of tax credit that can be used in the future is based on the medium-term business plan that prepares management and the results of its extrapolation for future periods.

The basis of the business plan is the expectations of management, which are considered justified in the current circumstances. Taking into account planned future earnings and the fact that the current Ukrainian tax law does not impose restrictions on the period of using the transferred tax losses, management considers expedient recognition of the deferred tax asset.

30 Basic and diluted profit per share

The Bank prepared its consolidated financial statements and separate financial statements as at and for the year ended 31 December 2017 and 31 December 2016 in accordance with IFRS 10 "Consolidated financial statements" and IAS 27 "Separate financial statements". Basic profit per share is calculated and disclosed based on the IFRS consolidated financial statements. During the reporting period, the Bank had no dilutive financial instruments. Therefore, basic profit per share is equal to diluted profit per share.

Profit per share is calculated as follows:

In thousands of hryvnias	**2017**	**2016**
Profit for the year attributable to ordinary shareholders	384 528	201 050
Weighted average number of ordinary shares in issue (thousands)	224 896 947	224 896 947
Basic and diluted profit per share attributable to shareholders of the Group, (UAH per share)	**0,0017**	**0,0009**

31 Segment analysis

Operating segments are components engaged in business operations that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is a person or a group of persons who allocate resources and measure the Group's performance. The CODM functions are performed by Management Board.

(a) Reportable segments

The Group has the following three key reportable segments:

- Retail banking – banking services to individuals including current and saving accounts, deposits, investments, credit and debit cards, consumer and mortgage loans, currency transactions, money transfers.
- Corporate banking – direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities, and foreign currency transactions to legal entities.
- Treasury and investment banking – financial instruments trading, capital market transactions, operations with foreign currencies and banknotes.

(b) Factors used to identify reportable segments

The Group's segments represent strategic business units targeting different customers. They are managed separately since each business unit requires different marketing strategies and service levels.

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

Management Board reviews financial information prepared in accordance with the NBU requirements and IFRSs.

The following approaches are applied to segment analysis :

(i) resources are reallocated among segments using internal interest rates set by Treasury Department. These internal interest rates are determined by reference to market interest rate benchmarks, contractual maturities of loans, and historical information on actual repayment of customer account balances;

(ii) income tax, gain/loss from foreign currency translation, and certain other items are not allocated to segments.

For operating decision making purposes, segment performance is measured based on profit before tax.

Reports include information on intersegment transfer (internal) results of reportable segments. Transfer result is calculated as the difference between transfer revenue and transfer expense per each segment based on transfer prices set by major currency and maturity. For corporate and retail segments, transfer revenue is calculated as estimated revenue from sales of attracted resources to Treasury and Investment Banking segment at acquisition transfer prices; transfer expenses are calculated as estimated expenses on purchase of resources from Treasury and Investment Banking segment at transfer prices on placements.

Transfer prices and transfer revenue/expenses are calculated in accordance with "Methodology for determining and applying transfer prices within "KREDOBANK" approved by Resolution of Management Board No. 371 dated 31 March 2017).

31 Segment analysis (continued)

(d) Reportable segment profit or loss, assets and liabilities

Reportable segments for the year ended 31 December 2017 are presented as follows:

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Total
Reportable segment assets	3 179 280	4 760 120	5 448 101	982 115	**14 369 616**
Reportable segment liabilities	4 979 426	5 936 003	1 992 613	163 211	**13 071 253**
Capital expenditure	-	-	-	307 731	**307 731**

Capital expenditures represent additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Eliminations	Total
2017						
External revenues:						
- Interest income	593 468	657 599	282 324	-	-	1 533 391
- Fee and commission income	216 534	251 693	11 634	-	-	479 861
- Other operating income	12 455	1 287	51	17 452	-	31 245
- Result from trading in foreign currencies	32 729		2 521	24 842	-	60 092
- Gains from disposal of investment securities available-for-sale	-	-	1 430	-	-	1 430
						-
Revenues from other segments						
- Interest income	347 946	299 385	952 501	-	(1 599 832)	-
Total revenues	**1 203 132**	**1 209 964**	**1 250 461**	**42 294**	**(1 599 832)**	**2 106 019**
Interest expense	(723 641)	(639 165)	(694 363)	-	1 599 831	(457 338)
Provision for loan impairment	(129 013)	(46 021)	-	-	-	(175 034)
Provision for credit related commitments	(8 520)	133	-	-	-	(8 387)
Fee and commission expense	(62 041)	(6 983)	(22 273)	-	-	(91 297)
Foreign exchange translation result	-	-	-	(16 692)	-	(16 692)
Administrative and other operating expenses and provisions for other assets	(496 269)	(334 559)	(51 974)	2 522	-	(880 280)
Segment result	**(216 352)**	**183 369**	**481 851**	**28 124**	**-**	**476 991**

31 Segment analysis (continued)

Reportable segments for the year ended 31 December 2016 are presented as follows:

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Total
Reportable segment assets	2 198 001	3 502 663	4 572 358	811 978	**11 085 000**
Reportable segment liabilities	3 883 339	4 207 246	1 980 041	113 979	**10 184 605**
Capital expenditure	-	-	-	233 052	**233 052**

Capital expenditures represent additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investmen t banking	Unallocated	Eliminations	Total
2016						
External revenues:						
- Interest income	382 190	573 574	348 596	-	-	1 304 360
- Fee and commission income	148 619	190 483	6 897	-	-	345 999
- Other operating income	6 856	1 124	201	5 139	-	13 320
- Gains from securities at fair value through profit or loss	-	-	1 513	-	-	1 513
Result from trading in foreign currencies	27 123	-	8 402	24 351	-	59 876
- Gains from disposal of investment securities available-for-sale	-	-	6 572	-	-	6 572
Revenues from other segments						
- Interest income	327 039	220 716	766 700	-	(1 314 455)	-
Total revenues	**891 827**	**985 897**	**1 138 881**	**29 490**	**(1 314 455)**	**1 731 640**
Interest expense	(586 972)	(551 182)	(616 014)		1 314 455	(439 713)
Provision for loan impairment	(121 041)	(85 586)	-		-	(206 627)
Provision for credit related commitments	(2 606)	(133)	-	-	-	(2 739)
Fee and commission expense	(46 894)	(1 527)	(14 387)	-	-	(62 808)
Foreign exchange translation result	-	-	-	(30 547)	-	(30 547)
Administrative and other operating expenses and provisions for other assets	(407 717)	(258 731)	(45 774)	(801)	-	(713 023)
Segment result	**(273 403)**	**88 738**	**462 706**	**(1 858)**	**-**	**276 183**

(e) Analysis of revenues by product and service

Analysis of Group’s revenues by product and service is disclosed in Note 25 (interest income) and Note 26 (fee and commission income).

(f) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Group has no significant revenues from outside Ukraine and all its non-current assets other than financial instruments are attributable to Ukraine. Refer to Note 32 for geographical analysis of Group's assets and liabilities.

(g) Major customers

The Group has no customers representing more than 10% of total revenue of the Group.

32 Financial risk management

Risk management relates to financial risks, operational risks, and legal risks. Financial risks comprise market risk (including currency risk, interest rate risk, and other price risk), credit risk, and liquidity risk. The purpose of financial risk management is to establish risk limits and ensure adherence to such limits. The operational and legal risk management is intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group is exposed to credit risk, which is the risk that a party to a financial instrument fails to meet its contractual obligations resulting in a financial loss to the other party. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For guarantees and credit related commitments, the maximum exposure to credit risk is the total amount of commitments (see Note 34). Credit risk is managed by making strategic decisions on acceptable credit risk, approving credit limits, updating principles and processes for credit risk assessment, implementing and improvement of risk assessment tools that allow maintaining risk within acceptable parameters, developing information tools that computerize credit risk assessment process and ensure quality and integrity of data used in the process, planning of operations and preparing recommendations, obtaining collateral, and by other tools intended to mitigate credit risk as described in Note 9.

The Group structures its exposures to credit risk by establishing limits per borrower or group of borrowers. Management approves credit risk limits on a regular basis. Such risks are regularly monitored and reviewed at least on a yearly basis.

The Group established the following corporate bodies responsible for approving credit limits per individual borrowers:

- Supervisory Board reviews and approves credit applications above USD 5.0 million and, in case of loan restructuring, above USD 6.25 million;
- Management Board reviews and approves credit applications up to USD 5.0 million and, in case of loan restructuring, up to USD 6.25 million;
- Credit Committee reviews and approves credit applications up to UAH 30 million, Small Credit Committee and Small Restructuring Committee – up to UAH 5 million, and Credit Restructuring Committee – up to USD 5 million. Credit Committee and Small Credit Committee generally meet two times per week. Credit Restructuring Committee and Small Restructuring Committee generally meet once a week;
- Deputies of the Chairman of Management Board and directors of the Head Office departments have individual powers to approve new credit decisions with the limits below UAH 1.25 million;
- Directors of independent branches have individual powers to approve new credit decisions with the limits below UAH 0.1 million.

Loan applications prepared by account managers are forwarded to relevant department that performs credit analysis and makes a decision or passes them on to the relevant credit committee for approval of credit limit within the scope of authority. Exposure to credit risk is also managed by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by credit department officers based on structured analysis focusing on customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by Management Board.

The Bank's credit department reviews ageing of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8, 9, 10, 11, and 14.

Credit risk of off-balance sheet financial instruments is defined as potential loss due to failure of the other party to a financial instrument to perform its contractual obligations. The Group applies the same credit policies to contingent liabilities as it applies to on-balance sheet financial instruments through established credit approvals, exposure control, and monitoring procedures.

32 Financial risk management (continued)

The report on the loan portfolio analysis with detailed analysis of credit risk exposure per overall loan portfolio and per lending segment is presented to governing bodies of the Group on a monthly basis.

In order to avoid significant loss caused by credit risk, the Bank performs ongoing control over adherence to credit risk parameters established by the NBU.

As at 31 December 2017, maximum credit risk exposure per counterparty, N7 ratio, calculated as the Bank's total claims to a counterparty or a group of related counterparties and total financial liabilities of a counterparty or a group of related counterparties to the Bank to regulatory capital is 5,38%, while the required ratio is up to 25% (31 December 2016: 8,21%).

As at 31 December 2017, large credit risks ratio, N8, calculated as total large credit risk exposure per counterparties, groups of related counterparties, and the Bank's related parties to regulatory capital is 0.00%, while the required ratio is up to 800% (31 December 2016: 0.00%).

Market risk . The Group is exposed to market risks arising from open positions in: (a) currency, (b) interest rate and (c) equity instruments, all of which are largely dependent on general and specific market developments. Management Board sets acceptable risk limits and monitors adherence to the limits on a daily basis. However, this approach does not prevent losses outside the limits in the event of significant market developments.

Currency risk. Management sets currency risk limits and overall acceptable risk exposure for overnight and intra-day positions, with periodical control performed. The Group is exposed to currency risks arising from open foreign currency positions. These positions are calculated as the differences between assets and liabilities in the same currency as at the reporting date. The Group evaluates and monitors levels of long and short foreign currency open positions using hryvnia as a base currency. Open position limits are set at the level required by the NBU and calculated as open currency position of regulatory capital of the Bank. Compliance with these limits is monitored on a daily basis. Respective reports are submitted to Asset, Liability and Tariff Management Committee (ALTCO) on a weekly basis.

The Group's currency risk exposure as at the reporting date is presented as follows:

	31 December 2017				**31 December 2016**			
In thousands of hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net position**
US Dollars	3 839 239	4 121 353	(6 361)	(288 475)	3 373 860	3 491 031	(148 908)	(266 079)
EUR	1 596 287	1 606 050	-	(9 763)	865 800	918 479	11 937	(40 742)
British pounds	16 088	15 701	-	386	6 220	6 162	-	58
Russian roubles	30 090	29 963	-	127	47 917	47 905	-	12
Other	140 852	137 489	6 329	9 692	99 634	99 812	5 602	5 424

The above analysis only includes monetary assets and liabilities. Management believes that investments in equity instruments and non-monetary assets will not give rise to significant currency risk.

32 Financial risk management (continued)

The following table presents sensitivity analysis of profit or loss and equity to reasonably possible changes in exchange rates as at the reporting date applied to Group's functional currency, with all other variables remaining constant:

	31 December 2017		31 December 2016	
In thousands of hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
10% strengthening of US dollar (2016: 40% strengthening)	(23 655)	(23 655)	(87 274)	(87 274)
10% weakening of US dollar (2016: 40% weakening)	23 655	23 655	87 274	87 274
10% strengthening of Euro (2016: 40% strengthening)	(801)	(801)	(13 363)	(13 363)
10% weakening of Euro (2016: 40% weakening)	801	801	13 363	13 363
10% strengthening of Russian rouble (2016: 40% strengthening)	10	10	4	4
10% weakening of Russian rouble (2016: 40% weakening)	(10)	(10)	(4)	(4)
10% strengthening of other currencies (2016: 40% strengthening)	826	826	1 798	1 798
10% weakening of other currencies (2016: 40% weakening)	(826)	(826)	(1 798)	(1 798)

The exposure was calculated only for monetary items denominated in currencies other than Group's functional currency.

Interest rate risk. The Group is exposed to interest rate risk arising from the effects of fluctuations in the prevailing market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, however it may decrease or cause losses in case of unexpected fluctuations.

If interest rates on financial instruments denominated in USD had been 200 basis points higher/lower, with all other variables remaining constant, profit for the year would have been UAH 2,305 thousand lower/higher as at 31 December 2017 (31 December 2016: profit for the year would have been UAH 19,368 thousand lower/higher), primarily due to increase/decrease in interest expense on variable interest rate liabilities.

If interest rates on financial instruments denominated in EUR had been 200 basis points higher/lower, with all other variables remaining constant, profit for the year would have been UAH 11,378 thousand higher/lower as at 31 December 2017 (31 December 2016: profit for the year would have been UAH 7,607 thousand higher/lower if interest rates had been 200 basis points higher/lower), primarily due to increase/decrease in interest income on variable interest rate loans.

If interest rates on financial instruments denominated in UAH had been 200 basis points higher/lower, with all other variables remaining constant, profit for the year would have been UAH 59,166 lower/higher as at 31 December 2017 (31 December 2016: profit for the year would have been UAH 42,663 thousand higher/lower if interest rates had been 200 basis points higher/lower), due to increase/decrease in interest income on variable interest rate loans.

Other equity components would have been UAH 38,486 thousand lower/higher (31 December 2016: UAH 28,716 thousand lower/higher) if interest rates had been 200 basis points higher/lower primarily due to decrease/increase in fair value of investment securities available-for-sale.

32 Financial risk management (continued)

The Group monitors interest rates on financial instruments. The table below summarises effective interest rates on interest bearing financial instruments as at the relevant reporting date:

	2017				2016			
% per annum	**UAH**	**US Dollars**	**EUR**	**Other**	**UAH**	**US Dollars**	**EUR**	**Other**
Assets								
Cash and cash equivalents								
- Interest bearing correspondent accounts with other banks	0%	1%	0%	1%	0%	0%	0%	5%
- Deposit certificates issued by the NBU	14%	-	-	-	14%	-	-	-
Securities at fair value through profit or loss	-	-	-	-	-	-	-	-
Due from other banks	13%	-	-	-	14%	-	-	-
Loans and advances to customers								
- at fixed rate	22%	8%	6%	9%	24%	10%	8%	9%
- at variable rate	19%	10%	7%	-	21%	9%	8%	-
Debt investment securities available for sale	19%	6%	4%	-	17%	7%	4%	-
Debt investment securities held to maturity	-	8%	-	-	-	8%	-	-
Liabilities								
Due to other banks								
- at fixed rate	13%	2%	-	-	-	-	-	-
- at variable rate	-	4%	-	-	10%	8%	0%	0%
Due to other financial institutions								
- at fixed rate	18%	-	-	-	-	-	-	-
- at variable rate	12%	-	-	-	-	-	-	-
Customer accounts								
- current and settlement accounts	1%	0%	0%	0%	1%	0%	0%	0%
- Term deposits	13%	2%	1%	-	14%	2%	1%	-
Own debt securities	15%	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	2%	-	-

“-“ in the table above means that the Group has no assets or liabilities denominated in the corresponding currency. Information presented in the table relates to fixed rates, unless stated otherwise.

Other price risk. The Group is exposed to early repayment risk due to providing fixed rate loans, including mortgages, which allow a borrower to early repay its loan. The Group’s current year loss and equity as at the reporting date would not be significantly influenced by changes in early repayment rates, since such loans are carried at amortised cost, and loan amount at early repayment is equal or close to amortised cost of loans and advances to customers.

32 Financial risk management (continued)

Geographical risk concentration. Geographical analysis of Group's assets and liabilities at 31 December 2017 is presented as follows:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1 053 554	1 260 912	7 588	**2 322 054**
Due from other banks	9 676	5 694	-	**15 370**
Loans and advances to customers	7 916 809	227	334	**7 917 370**
Investment securities available for sale	1 924 325	-	-	**1 924 325**
Papiery wartościowe do zapadalności	1 185 365	-	-	**1 185 365**
Other financial assets	34 683	2	3	**34 688**
Total financial assets	**12 124 412**	**1 266 835**	**7 925**	**13 399 172**
Aktywa niefinansowe	**963 510**	**3 995**	**2 939**	**970 444**
Total assets	**13 087 922**	**1 270 830**	**10 864**	**14 369 616**
Liabilities				**-**
Due to other banks	875 278	1 012 657	-	**1 887 935**
Customer accounts	10 746 327	89 678	56 627	**10 892 632**
Due to other financial institutions	107 865	-	-	**107 865**
Debt securities	4 759	-	-	**4 759**
Other financial liabilities	44 191	10 821	92	**55 104**
Total financial liabilities	**11 778 420**	**1 113 156**	**56 719**	**12 948 295**
Non-financial liabilities	**122 913**	**13**	**32**	**122 958**
Total liabilities	**11 901 333**	**1 113 169**	**56 751**	**13 071 253**
Net financial position	**1 186 589**	**157 661**	**(45 887)**	**1 298 363**
Credit related commitments	**27 693**	**-**	**-**	**27 693**

Assets, liabilities, and credit related commitments have been classified based on counterparty's resident country. Cash on hand, premises, leasehold improvements, and equipment have been classified based on the country of their physical presence.

32 Financial risk management (continued)

Geographical analysis of Group's assets and liabilities at 31 December 2016 is presented as follows:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	833 219	496 349	49 784	**1 379 352**
Due from other banks	31 938	9 891	105	**41 934**
Loans and advances to customers	5 673 159	31	767	**5 673 957**
Investment securities available for sale	1 435 855	-	-	**1 435 855**
Investment securities held to maturity	1 712 872	-	-	**1 712 872**
Other financial assets	30 107	2	2	**30 111**
Total financial assets	**9 717 150**	**506 273**	**50 658**	**10 274 081**
Non-financial assets	**806 305**	**2 389**	**2 225**	**810 919**
Total assets	**10 523 455**	**508 662**	**52 883**	**11 085 000**
Liabilities				
Due to other banks	339 996	957 172	-	**1 297 168**
Customer accounts	8 020 658	125 515	24 690	**8 170 863**
Other financial liabilities	62 172	1 482	95	**63 749**
Subordinated debt	**-**	**557 904**	**-**	**557 904**
Total financial liabilities	**8 422 826**	**1 642 073**	**24 785**	**10 089 684**
Non-financial liabilities	**94 907**	**7**	**7**	**94 921**
Total liabilities	**8 517 733**	**1 642 080**	**24 792**	**10 184 605**
Net financial position	**2 005 722**	**(1 133 418)**	**28 091**	**900 395**
Credit related commitments	**46 248**	**9 920**	**-**	**56 168**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain sufficient cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to banks, corporate and retail customer deposits, debt securities and subordinated debt. The Group invests the funds in portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring compliance of balance sheet liquidity ratios with regulatory requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the NBU requirements. These ratios include:

- instant liquidity ratio (N4) calculated as highly-liquid assets to current liabilities ratio. As at 31 December 2017, the ratio is 29%, with the required ratio being not less than 20% (31 December 2016: 28%, with the required ratio being not less than 20%).
- current liquidity ratio (N5) calculated as liquid assets to liabilities maturing within 31 calendar days ratio. As at 31 December 2017, the ratio is 48%, with the required ratio being not less than 40% (31 December 2016: 55%, with the required ratio being not less than 40%).
- Short-term liquidity ratio (N6) calculated as liquid assets to liabilities with one year or less maturity ratio. As at 31 December 2017, the ratio is 69%, with the required ratio being not less than 60% (31 December 2016: 72%, with the required ratio being not less than 60%).

32 Financial risk management (continued)

The Treasury Department receives information on liquidity profile of financial assets and liabilities. The Treasury Department ensures availability of adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks, and other inter-bank facilities, to maintain sufficient liquidity.

The tables below show Group's liabilities by remaining contractual maturity. The amounts disclosed represent contractual undiscounted cash flows, including total credit related commitments and commitments to extend financial guarantees. Such undiscounted cash flows differ from the amounts reported in the statement of financial position, since the amounts in the statement of financial position are based on discounted cash flows.

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

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

In thousands of hryvnias	**On demand and less than 1 month**	**1-12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	1 626 433	267 306	-	-	**1 893 739**
Customer accounts	7 384 188	3 507 092	119 690	36 662	**11 047 632**
Due to other financial institutions	1 112	16 651	109 170	-	**126 933**
Own debt securities	63	5 380	-	-	**5 443**
Other financial liabilities	40 307	14 797	-	-	**55 104**
Credit related commitments	27 693	-	-	-	**27 693**
Spot and forward contracts					
- inflows	(6 329)	-	-	-	**(6 329)**
- outflows	6 361	-	-	-	**6 361**
Total potential future payments for financial obligations	**9 079 828**	**3 811 226**	**228 860**	**36 662**	**13 156 576**

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of relevant liabilities and commitments disclosed in the above maturity analysis, as the Group does not generally expect the third party to draw funds under such agreements.

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

In thousands of hryvnias	**On demand and less than 1 month**	**1-12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	1 047 631	259 512	-	-	**1 307 143**
Customer accounts	5 287 788	2 860 584	128 772	35 870	**8 313 014**
Subordinated debt	4 062	561 969	-	-	**566 031**
Other financial liabilities	56 339	7 140	-	-	**63 479**
Credit related commitments	56 168	-	-	-	**56 168**
Spot and forward contracts					
- inflows	(246 104)	-	-	-	**(246 104)**
- outflows	249 982	-	-	-	**249 982**
Total potential future payments for financial obligations	**6 455 866**	**3 689 205**	**128 772**	**35 870**	**10 309 713**

32 Financial risk management (continued)

Customer accounts are classified based on remaining contractual maturities in the above analysis. However, in accordance with the Civil Code of Ukraine, for deposit agreements concluded prior to 6 June 2015, individuals have the right to withdraw their deposits prior to maturity, with their right to accrued interest forfeited. Some corporate deposit contracts envisage a possibility of early withdrawn. Certain deposit contracts with individuals concluded after 6 June 2015 also envisage early withdrawals. However, management believes based on its experience that majority of counterparties will not withdraw their deposits before maturity. The Group does not use the above undiscounted cash flow maturity analysis to manage liquidity. Instead, the Group monitors the following expected maturities as at 31 December 2017:

In thousands of hryvnias	**Demand and less than 1 month**	**1-12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2017					
Financial assets	3 994 988	4 119 569	4 665 133	619 482	13 399 172
Financial liabilities	(9 018 972)	(3 691 602)	(207 154)	(30 567)	(12 948 295)
Net liquidity gap based on expected maturities	**(5 023 984)**	**427 967**	**4 457 979**	**588 915**	**450 877**
Spot and forward contracts					
- inflows	6 329	-	-	-	6 329
- outflows	(6 361)	-	-	-	(6 361)
At 31 December 2016					
Financial assets	2 025 338	2 962 452	4 850 710	435 581	10 274 081
Financial liabilities	(6 363 655)	(3 577 763)	(119 145)	(29 121)	(10 089 684)
Net liquidity gap based on expected maturities	**(4 338 317)**	**(615 311)**	**4 731 565**	**406 460**	**184 397**
Spot and forward contracts					
- inflows	246 104	-	-	-	246 104
- outflows	(249 982)	-	-	-	(249 982)

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

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by a number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of financing for the Group.

The Bank has open credit line with its Parent company PKO Bank Polski SA for USD 30 million. Bank regularly uses this credit line for the replenishment of working capital and maintenance of the operational liquidity.

33 Capital management

The Group has the following objectives in managing capital: (i) to comply with the capital requirements set for the Bank by the National Bank of Ukraine, and (ii) to safeguard the Group's ability to continue as a going concern. The management believes that total capital under management of the Group equals the amount of equity as shown in the statement of financial position. The amount of capital that the Group managed as of 31 December 2017 was UAH 1,298,363 thousand (31 December 2016: UAH 900,395 thousand). The Bank's compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored on a ten day basis. Other objectives of capital management are evaluated annually.

Effective Ukrainian legislation requires that banks form a reserve to cover unforeseen losses on all asset items and off-balance sheet liabilities. The reserve must represent 25% of bank's regulatory capital but not less than 25% of bank's registered share capital. The reserve is formed through charges from net profit for the reporting year retained by the Bank after taxes and retained earnings for previous years.

Charges to the reserve must be no less than 5% of bank's profit until the reserve reaches 25% of bank's regulatory capital.

Should a bank's operations pose a threat to interests of depositors and other bank's creditors, the National Bank of Ukraine has the right to require increase in the reserve and annual charges thereto. If, as a result of bank's operations, regulatory capital is reduced to an amount lower than share capital, annual charges to the reserve must be 10% of bank's net profit until the reserve reaches 35% of bank's share capital.

The reserve may only be used to cover the bank's losses for the reporting year in accordance with the decision of the bank's board (Supervisory board) and in accordance with the procedure established by the general meeting of its shareholders. Furthermore, effective Ukrainian legislation envisages no restrictions on distribution of the reserve among bank's shareholders upon bank's liquidation after satisfaction of all creditors' claims.

As at 31 December 2017 and 31 December 2016, the Bank's reserve amounts to UAH 40,176 thousand.

In November 2017, a full repayment of the subordinated loan to PKO BP SA took place, which was taken into account for additional capital.
Under the current capital requirements set by the National Bank of Ukraine, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level.
The table below presents regulatory capital based on the Bank's reports prepared under the NBU requirements, which comprises the following components:

In thousands of hryvnias	**2017**	**2016**
Primary capital	879 995	624 978
Additional capital	530 552	619 815
Diversion	(10)	-
Total regulatory capital	**1 410 537**	**1 244 793**

As of December 31, 2017 and December 31, 2016, the Group complied with the requirements regarding the minimum regulatory capital adequacy ratio (H2), which should be at least 10%. The value of the H2 normative as at 31 December 2017 is 15% (December 31, 2016: 15%).

34 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims. The total amount of provision for litigation is UAH 9,313 thousand (see Note 21).

Tax legislation. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Management believes that it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Group's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessment has been made in these consolidated financial statements.

Capital expenditure commitments. At 31 December 2017, the Group had contractual capital expenditure commitments in respect of premises and equipment totalling UAH 5,984 thousand (31 December 2016: UAH 3,801 thousand) and in respect of intangible assets in the amount of UAH 2,920 thousand (31 December 2016: UAH 2,003 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group's management believes that future net income and funding will be sufficient to cover these and any similar commitments.

Operating lease commitments. The Group does not have non-cancellable operating leases.

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

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

In thousands of hryvnias	**Note**	**2017**	**2016**
Guarantees issued		38 711	62 857
Less: Provision for credit related commitments	20	(104)	(230)
Less: Cash covered credit related commitments	17	(10 914)	(6 459)
Total credit related commitments		**27 693**	**56 168**

34 Contingencies and commitments (continued)

Credit related commitments are denominated in currencies as follows:

In thousands of hryvnias	2017	2016
UAH	16 688	26 044
EUR	11 005	30 124
Total	**27 693**	**56 168**

At 31 December 2017, all commitments to extend credits are revocable and amount to UAH 1,899,771 thousand (31 December 2016: – UAH 1,255,754 thousand).

The total outstanding contractual commitments to extend credit, import letters of credit, and guarantees do not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

35 Fair value disclosures

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

(a) Recurring fair value measurements

Recurring fair value measurements are those that IFRS require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follow:

	2017				2016			
In thousands of hryvnias	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial assets								
Investment securities available for sale								
- Ukrainian Government bonds	-	1 924 295	-	1 924 295	-	1 435 825		1 435 825
- Corporate shares	-	-	30	30	-	-	30	30
Non-financial assets								
- Premises	-	-	260 107	260 107	-	-	272 303	272 303
- Investment properties	-	-	14 592	14 592	-	-	10 711	10 711
Total assets recurring fair value measurements	**-**	**1 924 295**	**274 729**	**2 199 024**	**-**	**1 435 825**	**283 044**	**1 718 869**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements as at 31 December 2017:

In thousands of hryvnias	Fair value	Valuation technique	Inputs used
Assets at fair value			
Financial assets			
Investment securities available for sale			
- Ukrainian Government bonds	1 924 295	Market approach	Quoted prices on market
Total recurring fair value measurements at level 2	**1 924 295**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2017 and 2016.

35 Fair value disclosures (continued)

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

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

In thousands of hryvnias	Year 2017 Level 1	Year 2017 Level 2	Year 2017 Level 3	Year 2017 Carrying value	Year 2016 Level 1	Year 2016 Level 2	Year 2016 Level 3	Year 2016 Carrying value
Assets								
Due from other banks	**-**	**15 370**	**-**	**15 370**	**-**	**41 934**	**-**	**41 934**
- Guarantee deposits	-	9 219	-	9 219	-	13 534	-	13 534
- Loans due from banks	-	6 151	-	6 151	-	28 400	-	28 400
Loans and advances to customers	**-**	**-**	**7 973 397**	**7 917 370**	**-**	**-**	**5 661 978**	**5 673 957**
- Corporate loans	-	-	4 726 714	4 738 382	-	-	3 478 045	3 480 924
- Loans to individuals - consumer loans	-	-	530 126	450 739	-	-	241 984	226 828
- Loans to individuals – mortgage loans	-	-	634 955	630 303	-	-	454 176	460 613
- Car loans	-	-	2 081 602	2 097 946	-	-	1 487 773	1 505 592
Investment securities held to maturity	-	**1 195 637**	-	**1 185 365**	-	**1 715 819**	-	**1 712 872**
Other financial assets	-	**34 688**	-	**34 688**	-	**30 111**	-	**30 111**
- Receivables from operations with clients and banks	-	18 138	-	18 138	-	20 535	-	20 535
- Accrued income	-	1 876	-	1 876	-	2 871	-	2 871
- Receivables from operations with plastic cards	-	14 674	-	14 674	-	6 705	-	6 705
Total	**-**	**1 245 695**	**7 973 397**	**9 152 793**	**-**	**1 787 864**	**5 661 978**	**7 458 874**

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

In thousands of hryvnias	Year 2017 Level 1	Year 2017 Level 2	Year 2017 Level 3	Year 2017 Carrying value	Year 2016 Level 1	Year 2016 Level 2	Year 2016 Level 3	Year 2016 Carrying value
Liabilities								
Due to other banks	-	**1 883 924**	-	**1 887 935**	-	**1 295 307**	-	**1 297 168**
- Correspondent accounts of other banks	-	1 431 054	-	1 431 054	-	919 366	-	919 366
- Term placements and loans of other banks	-	452 870	-	456 881	-	375 941	-	377 802
Customer accounts	-	**10 960 493**	-	**11 000 497**	-	**8 118 325**	-	**8 170 863**
- Current/settlement accounts of legal entities	-	4 076 017	-	4 076 017	-	3 044 170	-	3 044 170
- Term deposits of legal entities	-	1 836 213	-	1 841 486	-	1 233 816	-	1 245 031
- Current/demand accounts of individuals	-	1 683 617	-	1 683 617	-	1 107 119	-	1 107 119
- Term deposits of individuals	-	3 262 507	-	3 291 512	-	2 733 220	-	2 774 543
- Due to other financial institutions	-	102 139		107 865	-	-	-	-
Other financial liabilities	-	**55 104**	-	**55 104**	-	**63 749**	-	**63 749**
- Funds in settlements	-	24 533	-	24 533	-	22 918	-	22 918
- Accounts payable at factoring agreements	-	-	-	-	-	18 714	-	18 714
- Other accrued liabilities	-	30 433	-	30 433	-	18 655	-	18 655
- Due to the Deposit Guarantee Fund	-	-	-	-	-	3 105	-	3 105
- Provision for credit related commitments	-	104	-	104	-	230	-	230
- Other	-	34	-	34	-	127	-	127
Subordinated debt	-	-	-	**-**	-	**551 802**	-	**557 904**
Own debt securities	-	**4 773**	-	**4 759**	-	**-**	-	**-**
Total	**-**	**12 904 294**	**-**	**12 948 295**	**-**	**10 029 183**	**-**	**10 089 684**

35 Fair value disclosures (continued)

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

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

36 Presentation of financial instruments by measurement categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets available-for-sale; (c) financial assets held-to-maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

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

In thousands of hryvnias	**Loans and receivables**	**Available for sale assets**	**Investment securities held to maturity**	**Total**
Assets				
Cash and cash equivalents	2 322 054	-	-	**2 322 054**
Due from other banks				**-**
- Guarantee deposits and loans due from banks	15 370	-	-	**15 370**
Loans and advances to customers				**-**
- Corporate loans	4 738 382	-	-	**4 738 382**
- Loans to individuals – car loans	2 097 946			**2 097 946**
- Loans to individuals – consumer loans	450 739	-	-	**450 739**
- Loans to individuals – mortgage loans	630 303	-	-	**630 303**
Investment securities available for sale	-	1 924 325	-	**1 924 325**
Investment securities held to maturity	-	-	1 185 365	**1 185 365**
Other financial assets	34 688	-	-	**34 688**
Total financial assets	**10 289 482**	**1 924 325**	**1 185 365**	**13 399 172**

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

In thousands of hryvnias	**Loans and receivables**	**Available for sale assets**	**Investment securities held to maturity**	**Total**
Assets				
Cash and cash equivalents	1 379 352	-	-	**1 379 352**
Due from other banks				
- Guarantee deposits	41 934	-	-	**41 934**
Loans and advances to customers				
- Corporate loans	3 480 924	-	-	**3 480 924**
- Loans to individuals – car loans	1 505 592	-	-	**1 505 592**
- Loans to individuals – consumer loans	226 828	-	-	**226 828**
- Loans to individuals – mortgage loans	460 613	-	-	**460 613**
Investment securities available for sale	-	1 435 855	-	**1 435 855**
Investment securities held to maturity	-	-	1 712 872	**1 712 872**
Other financial assets	30 111	-	-	**30 111**
Total financial assets	**7 125 354**	**1 435 855**	**1 712 872**	**10 274 081**

As at 31 December 2017 and 31 December 2016, all of the Group's financial liabilities were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

37 Related party transactions

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

As at 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks	71 620	-	-
Gross amount of loans and advances to customers			772
Impairment provisions for loans and advances to customers	-	-	242
Other assets	605	8	-
Correspondent accounts and overnight placements of other banks	749 221	-	-
Term deposits and loans from other banks	263 436	-	-
Customer accounts	-	53 345	590
Subordinated debt	-	-	-
Due to other financial institutions	-	5 400	-
Other liabilities	304	568	19 471

The income and expense items on transactions with related parties for 2017 were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Interest income	-	-	94
Interest expense	(31 786)	(6 920)	(7)
Other income	-	49	5
Provision for loan and investment impairment	-	-	(84)
Fee and commission income	2	112	5
Fee and commission expense	(1 907)		4
Other expenses	(1 845)	(4 861)	-

As at 31 December 2017, other rights and obligations with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Loan commitments received	850 028	-	-
Other commitments granted	6 329	-	237
Other rights received	6 361	-	-
Collateral received	1 403	-	4 193

Loan commitments received relate to the undrawn borrowing facilities received from the Parent Bank PKO Bank Polski S.A. denominated in USD and maturity in June 2019 with interest rate at the level of 1m LIBOR + 5%.

37 Related party transactions (continued)

Total amounts granted to related parties and repaid by them in 2017 are presented below:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Amounts repaid by related parties during the period	-	-	(751)

As at 31 December 2016, the outstanding balances with related parties were as follows:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Correspondent accounts with other banks	37 094	-	-
Gross amount of loans and advances to customers	-	-	522
Impairment provisions for loans and advances to customers	-	-	(316)
Other assets	995	-	-
Correspondent accounts and overnight placements of other banks	624 408	-	-
Term placements and loans from other banks	332 764	-	-
Customer accounts	-	47 860	269
Subordinated debt	557 904		
Other liabilities	142	373	14 766

The income and expense items on transactions with related parties for 2016 were as follows:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Interest income	-	-	24
Interest expense	(64 453)	(5 107)	(10)
Other income	-	29	1
Provision for loan and investment impairment	-	-	267
Fee and commission income	21	50	3
Fee and commission expense	(1 268)	-	-
Other expenses	(1 702)	(4 682)	-

As at 31 December 2016, other rights and obligations with related parties were as follows:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Loan commitments received	740 592	-	-
Other commitments granted	27 459	-	67
Other rights received	17 584	-	-
Collateral received	170 248	-	1 676

Loan commitments received relate to the undrawn borrowing facilities received from the Parent Bank PKO Bank Polski S.A. denominated in USD and maturity in June 2019 with interest rate at the level of 1m LIBOR + 5%.

37 Related party transactions (continued)

Total amounts granted to related parties and repaid by them in 2016 are presented below:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Amounts repaid by related parties during the period	-	-	(122)

Key management personnel remuneration amounts are presented below:

	Year 2017		Year 2016	
In thousands of hryvnias	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	20 853	1 476	19 548	1 205
- Annual bonus	13 663	17 925	19 100	13 500
Pension benefits:				
- State pension and social security costs	801	67	652	60
Total	**35 317**	**19 468**	**39 300**	**14 765**

Short-term benefits fall due wholly within twelve months after the end of the period in which management rendered related services.

Expenses for bonuses for 2017 include an accrued liability of UAN 13,500 thousand (2016: UAN 13,500 thousand).

38 Subsequent events

After December 31, 2017, there were no events that would require amendments or additions to the financial statements or disclosures in the financial statements.

Approved for issue and signed on behalf of the Management Board on March 12, 2018.

G. Szatkowski
Chairman of the Management Board

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК»
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