PUBLIC JOINT-STOCK COMPANY
COMMERCIAL BANK "PRAVEX-BANK"

financial statements as at 31 December 2017

Contents

			(in thousands of hryvnias)
Item	**Notes**	**31.12.2017**	**31.12.2016**
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ASSETS			
Cash and cash equivalents	6	1,088,693	917,691
Mandatory reserves with the National Bank of Ukraine	6	-	70,171
Due from banks	7	142,875	-
Loans and advances to customers	8	547,792	982,249
Securities available-for-sale	9	2,700,815	1,692,931
Investment property	10	177,981	176,306
Current income tax receivable		1,631	1,631
Property, equipment and intangible assets	11	466,416	485,636
Other financial assets	12	33,080	31,649
Other assets	13	65,463	45,254
Total assets		**5,224,746**	**4,403,518**
LIABILITIES			
Due to banks	14	26	42,060
Due to customers	15	2,921,588	3,004,713
Debt securities issued by the Bank	16	36,926	80,708
Deferred tax liabilities	27	7,104	5,890
Provisions for liabilities	17	5,845	10,599
Other financial liabilities	18	1,178,548	86,751
Other liabilities	19	40,275	45,132
Total liabilities		**4,190,312**	**3,275,853**
EQUITY			
Share capital	20	1,038,007	1,038,007
Share premium	20	3,502,964	3,502,964
(Accumulated deficit)		(3,771,287)	(3,682,223)
Reserves and other finds		1,332	1,332
Revaluation reserves		263,418	267,585
Total equity		**1,034,434**	**1,127,665**
Total liabilities and equity		**5,224,746**	**4,403,518**

Chairman of the Board
PJSC CB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
PJSC CB "PRAVEX-BANK" **O.Yu. Kibets**

DATE: 19 February 2018

			(in thousands of hryvnias)
Item	**Notes**	**31.12.2017**	**31.12.2016**
1	**2**	**3**	**4**
Interest income	23	291,565	533,403
Interest expense	23	(113,388)	(197,055)
Net interest income		**178,177**	**336,348**
Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks	7,8	44,162	565,123
Net interest income/(expense) after establishment of provision for impairment of loans and advances to customers, and due from banks		**222,339**	**(228,775)**
Commission income	24	207,803	209,476
Fee and commission expense	24	(85,718)	(49,832)
Gains less losses from dealing in financial instruments at fair value through profit or loss		-	(959)
Gains less losses from dealing in foreign currencies		17,676	12,606
Gains less losses arising from foreign currency translation		(4,540)	(546)
Gains less losses arising from revaluation of investment properties	10	8,370	(14,101)
Gains/(losses) from initial recognition of financial assets at interest rates higher or lower than market rates		(2,607)	(3,522)
Gains/(losses) from initial recognition of financial liabilities at interest rates higher or lower than market rates		1,047	-
Net increase in provisions for impairment of accounts receivable and other financial assets	12, 13	(31)	(242)
Net decrease in provisions for liabilities	17	4,763	535
Other operating income	25	95,721	47,199
Administrative and other operating expenses	26	(576,514)	(564,836)
Loss before tax		**(111,691)**	**(592,997)**
Income tax expense	27	1,495	4,616
Loss from continuing operations		**(110,196)**	**(588,381)**
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of property and equipment	21	19,250	(23,453)
Revaluation of transactions with shareholders		351	-
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	21	(2,696)	6,080
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of securities available-for-sale	21	73	(110)
Income tax related to items of other comprehensive income that will be reclassified to profit or loss	21	(13)	20
Other comprehensive income (loss) after tax		**16,965**	**(17,463)**
Total comprehensive income (loss) for the year		**(93,231)**	**(605,844)**

			(in thousands of hryvnias)
Item	**Notes**	**31.12.2017**	**31.12.2016**
1	2	3	4
Loss attributable to shareholders		**(110,196)**	**(588,381)**
Total comprehensive income (loss) attributable to shareholders		(93,231)	(605,844)
Loss per share from continuing operations:			
Basic loss per ordinary share	28	(0.07)	(0.35)
Diluted loss per ordinary share	28	(0.07)	(0.35)
Loss per share attributable to shareholders:			
Basic loss per ordinary share for the year	28	(0.07)	(0.35)
Diluted loss per ordinary share for the year	28	(0.07)	(0.35)

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(in thousands of hryvnias)

Item	Notes	31.12.2017	31.12.2016
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		274,557	556,111
Interest expense paid		(118,188)	(202,600)
Commission income received		209,543	210,312
Commission expense paid		(85,754)	(49,814)
Gains less losses from dealing in foreign currencies		17,676	12,606
Other operating income received		66,778	47,134
Administrative and other operating expenses paid		(508,468)	(510,312)
Cash flows from (used in) operating activities before changes in operating assets and liabilities		**(143,856)**	**63,437**
Net decrease/(increase) in mandatory reserves with the National Bank of Ukraine		70,171	(70,171)
Net increase in due from banks		(136,931)	-
Net decrease in loans and advances to customers		440,722	295,768
Net decrease/(increase) in other financial assets		(17,199)	36,916
Net decrease/(increase) in due to banks		(41,753)	10,924
Net decrease in due to customers		(124,221)	(120,909)
Net (decrease)/increase in debt securities issued by the bank		(46,426)	77,432
Net increase/(decrease) in other financial liabilities		1,078,028	(23,411)
Net cash flows (used in) from operating activities		1,078,535	269,986
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available-for-sale		(56,895,141)	(51,906,000)
Proceeds from sale of securities available-for-sale		55,916,000	52,005,000
Proceeds from sale of financial assets at fair value through profit or loss		-	1,087
Proceeds from sale of non-current assets		-	26,000
Purchase of property and equipment		(28,280)	(4,227)
Proceeds from sale of investment properties		10,136	-
Proceeds from disposal of property, equipment and intangible assets		46,692	40,471
Purchase of intangible assets		(21,233)	(5,368)
Dividends received		-	65
Net cash flows (used in) from investing activities		**(971,826)**	**157,028**
Net increase in cash and cash equivalents		106,709	427,014
Effect of changes in NBU exchange rates on cash and cash equivalents		**64,293**	**50,553**
Cash and cash equivalents at the beginning of the year	**6**	**917,691**	**440,124**
Cash and cash equivalents at the end of the year	**6**	**1,088,693**	**917,691**

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Item	Attributable to the shareholders						Total equity
	share capital	share premium and other additional capital	reserves and other finds	revaluation reserves	retained earnings	total	
1	2	3	4	5	6	7	8
Balance as at 1 January 2016	1,038,007	3,502,964	1,332	315,753	(3,124,547)	1,733,509	1,733,509
Total comprehensive income	-	-	-	(48,168)	(557,676)	(605,844)	(605,844)
loss for the year 2016	-	-	-	-	(588,381)	(588,381)	(588,381)
other comprehensive income	-	-	-	(48,168)	30,705	(17,463)	(17,463)
Revaluation of property and equipment	-	-	-	(48,078)	30,705	(17,373)	(17,373)
Revaluation of securities	-	-	-	(90)	-	(90)	(90)
Closing balance as at 31 December 2016/1 January 2017	1,038,007	3,502,964	1,332	267,585	(3,682,223)	1,127,665	1,127,665
Total comprehensive income	-	-	-	(4,167)	(89,064)	(93,231)	(93,231)
loss for the year 2017	-	-	-	-	(110,196)	(110,196)	(110,196)
other comprehensive income	-	-	-	(4,167)	21,132	16,965	16,965
Revaluation of property and equipment	-	-	-	(4,292)	20,860	16,568	16,568
Revaluation of securities	-	-	-	60	-	60	60
Transactions with shareholders	-	-	-	65	272	337	337
Closing balance as at 31 December 2017	1,038,007	3,502,964	1,332	263,418	(3,771,287)	1,034,434	1,034,434

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Note 1. Background

Full name of the Bank	Public Joint-Stock Company Commercial Bank “PRAVEX-BANK”
Short name of the Bank	PJSC CB “PRAVEX-BANK”
Location	9/2 Klovsky Uzviz, Kyiv 01021, Ukraine
Country of registration	Ukraine
Form of ownership	Public joint-stock company
Name and location of the parent company	Intesa Sanpaolo S.p.A. 10121 ItaliaTorino, 156 Piazza San Carlo, 156
Management shareholding	0%
Foreign investor shareholding	Intesa Sanpaolo S.p.A. (Italy) owns 100% of the Bank’s share capital
Reporting period	From 1 January to 31 December 2017
Reporting currency and measurement unit	Thousands of Ukrainian hryvnias

The strategic goal of activity and development of PJSC CB “PRAVEX-BANK” (hereinafter – “the Bank”) is to create a universal bank providing a full range of bank services to legal entities and individuals.

The operation within the framework of limited macroeconomic scenario on the background of frozen military conflict in the East of Ukraine, unstable economic situation, inflation and devaluation risks and varying intentions of the financial markets players hampered implementation of the Bank’s strategy in 2017 and had an adverse impact on its financial results.

The above factors forced the Bank to focus on the solvency issues and its reliability, giving the highest priority to:

- liquidity management and foreign exchange risks;
- additional effort in dealing with problem loans;
- operational efficiency and financial performance improvement;
- strengthening the Bank’s position both in the corporate and retail segments, particularly by attraction of new clients and enhancing the service quality.

In accordance with the above key priorities, the Bank took the following actions:

- focused on increasing the volume of liquid assets and investing in the NBU’s deposit certificates to avoid liquidity risks and ensure risk-free interest income,
- lent limited amounts to legal entities targeting the customers with stable financial position and high reputation on the market,
- reduced the cost of the funds borrowed from the customers, primarily retail customers without significant impact on free liquidity,
- reduced the amount of overdue loans through active debt restructuring and disposal of overdue loans,
- continued work aimed at realization/sales of the pledged properties (previously foreclosed by the Bank) and the premises of its outlets that were not used in operating activity,
- continued to actively optimize the branches network and increase their efficiency.

Note 2. Economic environment of the Bank

The Bank's operations are primarily located in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory. Various events in March 2014 led to the accession of the Republic of Crimea to the Ukraine, which was not recognized by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Ukraine.

Ukraine's economic situation deteriorated significantly since 2014 as a result of the fall in trade with the Ukraine and military tensions in Eastern Ukraine. Although instability continued throughout 2016 and 2017, Ukrainian economy showed first signs of recovery with inflation rate slowing down, lower depreciation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine and general revival in business activity.

In 2016 and 2017, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased, while the settlement period for export-import transactions in foreign currency was increased. Also, the NBU allowed Ukrainian companies to pay dividends abroad with a certain monthly limitation.

The banking system remains fragile due to low level of capital and weak asset quality and the Ukrainian companies and banks continue to suffer from the lack of funding from domestic and international financial markets.

The International Monetary Fund continued to support the Ukrainian government under the four-year Extended Fund Facility Program approved in March 2015. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms (including anticorruption, corporate law, and gradual liberalization of the energy sector).

In August 2017 Moody's upgraded Ukraine's credit rating to Caa2, with a positive outlook, reflecting recent government reforms and improved foreign affairs. Further stabilization of economic and political environment depends on the continued implementation of structural reforms and other factors.

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 financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

Note 3. Basis of preparation

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – 'IFRSs'), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, and effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market.

During 2017 and in the preparation of these financial statements, the Bank consistently applied significant accounting policies set out below.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Transactions are recorded in the underlying transaction currency. Assets and liabilities, income and expenses from transactions with foreign currencies are reflected in UAH equivalent at the official NBU exchange rate for foreign currencies at the date of recognition. The functional currency of these financial statements is the Ukrainian hryvnia (UAH). The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

Note 4. Accounting policies of PJSC CB "PRAVEX-BANK" for 2017

4.1 Basis of measurement

The Bank's accounting policies are based on the underlying accounting principles under which the financial statements are prepared: completeness, substance over form, standalone basis, prudence, going concern, accrual and matching of income and expenses, consistency (consistent application by the bank of selected accounting policies) and the single monetary unit.

Information on criteria for the recognition and measurement of assets and liabilities and income and expenses is set out in the following sections of this note.

The financial statements have been prepared on the historical cost basis except for:

- securities available-for-sale and financial assets at fair value through profit or loss that are measured at fair value;
- non-current assets held-for-sale that are measured at lower of carrying amount and fair value;
- buildings and investment property that are measured at fair value.

Use of accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that may significantly affect the amounts in the statement of financial position and in the statement of profit or loss and other comprehensive income, as well as the amounts of assets and liabilities in the financial statements. The estimates are based on the available information and subjective judgments, often based on historical experience, that are used to formulate reasonable assumptions when assessing results of operations. Taking into account their nature, estimates and assumptions used, can be changed from year to year, and, therefore, the amounts presented in the financial statements may significantly differ in the future financial years as a result of change in the subjective estimates.

Management should make its subjective estimates regarding the following:

- assessment of impairment losses of loans and, generally, other financial assets;
- estimates and assumptions with regard to realization of deferred tax assets.

In particular, information about significant areas of estimation uncertainty in applying accounting policies is as follows.

Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

Management believes it is taking all the necessary measures to support the sustainability and liquidity position of the Bank's business in the current circumstances, however, any further deterioration in the liquidity of the financial markets, the increased outflow of funds from the banking system and volatility in the currency market may affect the Bank's liquidity position in a manner not currently determinable.

Exchange rates applied to the translation of assets and liabilities denominated in foreign currencies. The Ukrainian hryvnia is not a convertible currency outside Ukraine. Accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

In preparation of these financial statements, management applied the NBU official rate for the retranslation of the operations and balances in foreign currencies. The NBU official exchange rates are derived from officially published source. Management believes that application of these rates substantially serves comparability purposes.

Changes in accounting policies

During 2017, there were no changes in the accounting policies.

4.2. Initial recognition of financial instruments

A financial instrument represents any contract causing origination (increase) of a financial asset for one counterparty and financial liability or equity instrument for the other counterparty.

The Bank recognizes financial assets and liabilities in accounting records, when the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument (financial asset or financial liability) is initially measured by the Bank at its fair value.

Transaction costs that are directly attributable to the recognition of a financial instrument, including commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc., are added to the amount of the discount (premium) for underlying financial instrument. The Bank amortizes the amount of the discount/premium during the period of life of a financial instrument (excluding financial instruments held for trading) using the effective interest method on at least monthly basis. The amount of the discount/premium must be fully amortized by the financial instrument maturity date.

The Bank classifies its financial instruments as follows: cash and cash equivalents, financial assets at fair value through profit or loss, loans and accounts receivable, financial assets available-for-sale and financial liabilities.

4.3. Impairment of assets

Financial assets

The Bank assesses at each reporting date whether objective evidence of impairment exists for financial assets that are individually significant, or for group of financial assets that are not individually significant. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulties, default or delinquency in interest or principal payments, probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is written down through an allowance account, and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. Interest income continues to accrue on the reduced carrying amount applying the original effective interest rate of the asset. Loans are written off against provisions when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. The bad debt is recognized, and the debt balance is written off against the provision in the cases described below.

The Bank analyses its receivables on loans and other accounts receivable to identify bad debts at least once a quarter.

The Bank recognizes credit and other receivables as bad if they meet at least one or several of the following criteria:

the limitation period on the debt has expired, and no repayments of the debt were made for a three-year period;

overdue debt of a deceased person possessing no inheritable property upon which the execution could be levied;

overdue debt of missing or deceased persons recognized as such by court decision;

forgiven overdue debt of a retail borrower, unless such individual is the creditor's associate, or if he or she is, or was employed by the creditor;

overdue debt of a corporate or retail borrower outstanding due to insufficiency of the borrower's property, to the extent that the relevant e the enforcement measures in respect of the borrower's property did not result in payoff of the debt;

cancellation of the debt collection proceedings as a result of their inefficiency, i.e. when the Bank's related legal expenses may exceed the collectible amount;

debt uncollectible due to impediments of extraordinary nature (force majeure) as determined by the law, including:

-extraordinary weather conditions and natural disasters (e.g. hurricane, storm, flood, snow blockage, glaze ice, earthquake, fire, subsidence or landslide), unless such weather conditions and natural disasters are insurance events covered by an insurance policy in respect of the pledged property;

- extraordinary situations caused by a party other than a party to the relevant agreement (e.g. strike, lockout, declared or undeclared war, threat of war, act of terror, blockade, revolution, conspiracy, uprising, mass unrest, public rallies, illegal acts of third parties, fire or explosion);

- conditions brought under regulation of relevant executive authorities, as well as those related to clean-up and remediation operations with regard to natural disasters and extraordinary situations;

- debt of business entities that were recognized bankrupt or liquidated in a due course of the law;

- debt outstanding upon completion of the bankruptcy procedure, unless the Bank's expenses have been fully recovered or there is a possibility to collect any other type of security;

- debt outstanding upon decision of the court not in the Bank's favor and/or decision of the Bank to abandon any further claims in respect of the debt;

- debt recognized fraudulent as a result of the line-of-duty investigation.

Bad debt is recognized and written off against the provision at the decision of the Management Board. Once the bad debt is written off against the provision, it is carried on the off-balance sheet accounts during the period specified by Ukrainian law.

If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss and other comprehensive income.

In particular, the Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining the allowance amount include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected revenues, feasibility of other financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date.

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, mortgage loans, car loans and consumer loans) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated by the Bank at each reporting date with each portfolio receiving a separate review.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Renegotiated loans

If the currency of the loan has been changed, the original loan is derecognized and the new loan is recognized.

If the loan restructuring is caused by the financial difficulties of the borrower and the loan is considered to be impaired after restructuring, the Bank recognizes the difference between the present value of future cash flows under new terms discounted using original effective interest rate and the carrying amount recognized before restructuring as impairment loss in the reporting period.

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered to be past due, but are treated as current loans once minimum number of repayments required under a new arrangement have been received. Renegotiated loans subject to individual impairment review are subject to ongoing reviews to determine whether they remain impaired.

Financial assets are assessed for impairment in accordance with the IFRS impairment assessment methodology based on the loan's classification. All loans classified to Non-performing loans as Past due, Unlikely to pay and Doubtful are deemed to be impaired. Adjustment for impairment loss on a financial instrument is calculated for the same period for which the provision has been created.
The credit indebtedness categories are reviewed on a monthly basis using the available objective and subjective criteria.

4.4. Derecognition of financial instruments

Financial assets are derecognized only when as a result of sale all the risks and rewards related to assets are transferred. On the contrary, if a significant portion of risks and rewards related to sold financial assets are retained, they continue to be recognized as assets even if the ownership for these assets was transferred. Unless the identification of transfer of risks and rewards is practicable, financial assets are derecognized when control over assets is lost. In other case, when control is retained at least partially, the Bank continues to recognize assets within its interest therein, which is measured based on the degree of participation in changes in the value of sold assets and underlying cash flows. Finally, sold financial assets are derecognized, if the entity retains contractual obligations for receiving cash flows from an asset, but simultaneously undertakes to transfer respective cash flows to third parties. The Bank derecognizes a financial liability or its part when its contractual obligations are discharged or cancelled or expire.

4.5. Cash and cash equivalents

The Bank recognizes cash on hand, balances on accounts in the National Bank of Ukraine, correspondent accounts, and overnight deposits in other banks within cash and cash equivalents. In case of existence of certain restrictions on the use, the Bank excludes the mandatory reserves in the statement of financial position and statement of cash flows.

4.6. Loans and advances to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as financial instruments available-for-sale; or,
- may not recover substantially all of the holder's initial investment, other than because of credit deterioration.

Loans are initially recognized on the underlying contract date based on the fair value of the financial instrument that equals to the amount given, including expenses/income that are directly attributable to a single loan and can be determined when originated even if paid at a later date.

Subsequent to initial recognition loans are carried at amortized cost, which equals to the original cost increased/decreased by principal repayments and by amounts of adjustments/repayments and amortization calculated using the effective interest method of any difference between the initial amount and the amount expected in maturity that, usually, relates to expense/income which directly attributable to the loan. The effective interest rate is the rate that exactly discounts the estimated future cash flows on a loan, i.e. principal amount and interest, to the amount of the cash disbursed, including expenses/income which relate to the loan. This measurement method is based on the financial approach and allows allocating the economic effect of expenses/income over the remaining period until maturity.

4.7. Securities available-for-sale

Securities available-for-sale include financial assets that are not classified to other categories such as loans, financial assets held for trading, and investments held to maturity.

Debt securities and shares available-for-sale are initially recognized at the settlement date. Assets are initially recognized at fair value taking into account transaction costs and income directly attributable to the instrument.

Subsequent to the initial recognition, financial assets available-for-sale are carried at fair value. Income and loss from change of fair value are recognized in other comprehensive income up to the moment the financial asset is derecognized or objective indications of impairment are identified. When a financial asset is sold or loss is recognized, accumulated gain or loss is reversed through the statement of profit or loss and other comprehensive income. For determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, pricing models are applied that take into account the current market and contractual prices of the underlying instruments and other factors. Equity instruments included to this category and derivative financial instruments originated based on equity instruments whose fair value may not be determined reliably are recognized at cost. Financial assets available-for-sale are reviewed to determine whether there is any indication of impairment. If any such indication exists, loss is determined as a difference between the carrying amount of the asset and its fair value. If indications of impairment no longer exist after the event that occurred after recognition of impairment, loans and debt securities are reversed through the statement of profit or loss and other comprehensive income and equity instruments are reversed through other comprehensive income. The reversal shall be recognized only to the extent that the carrying amount of the financial asset does not exceed its amortized cost had no impairment losses been recognized in the prior periods.

4.8. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated as at fair value through profit or loss.

Management may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

4.9. Property and equipment

Property and equipment represents tangible assets held by the Bank in its ordinary activity, to deliver services, to lease to other persons or to perform administrative function, to the extent that the useful lives of such assets exceed one year.

Property and equipment are initially recognized at cost including any costs directly attributable to acquisition and bringing the assets to the working condition for their intended use.

Subsequent to initial recognition, the Bank measures the property and equipment items, other than properties of the Bank, using historical cost method.

The assets that after initial recognition are measured at historical cost are not subject to any subsequent revaluations.

The Bank measures its properties applying the revalued cost method. The Bank premeasures any properties carried at revalued cost to the extent that the residual value of such properties differs significantly from its fair value at the balance sheet date. In case any properties are revaluated, the Bank performs revaluation of all other properties as of the same date.

To determine fair values of its properties, the Bank orders their independent expert appraisal as at the balance sheet date. Independent expert appraisal must be carried out by in independent appraiser as at the end of the reporting year.

Subsequent revaluations of a group of property and equipment revalued in previous periods must be carried out with a sufficient frequency to ensure their residual value as at the balance sheet date does not significantly differs from their fair value.

As at 31 October 2017, the Bank's properties valuation was carried out by independent certified appraiser, LLC "Kredytno Brokerske Agentstvo". At the moment of valuation, LLC "Kredytno Brokerske Agentstvo" company held the appraiser's certificate required by the effective legislation of Ukraine and previous experience of valuation of similar properties.

Fair value of investment property items was determined to be equal to the market value net of value added tax. The targets' market value was appraised applying the comparison approach (method of adjustment of similar property value).

A revaluation increase on buildings is recognized directly in other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on buildings is recognized in profit or loss, except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity.

In recognizing revaluation surplus, historical (revalued) amount of property and equipment is decreased by accumulated depreciation, and the carrying amount calculated on a net basis is revalued to fair value. Based on this method, revalued amount is equal to fair value and accumulated depreciation amounts to nil.

The costs of improvement of property and equipment are recognized on capital investments accounts.

Useful lives and applicable depreciation rates are reviewed at each year-end. The below table presents useful lives of certain categories of property and equipment for 2017:

Description	Useful lives, years
Buildings and constructions	33.33
Machinery and equipment	4-15
Motor vehicles	10
Fixtures and fittings (furniture)	4-10
Other property and equipment	2-10

Depreciation is charged on a straight-line basis over the estimated useful lives of individual assets. In 2017, there were no changes in depreciation method and useful lives.

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

Expenditures incurred for operating leasehold improvements are charged over the period starting from the month following the month of completion of improvements and ending in the last month of the lease term, or, if the economic life of a leasehold improvement is shorter than the applicable lease, depreciation is charged over the economic life of the leasehold improvement.

Depreciation is discontinued on the earlier of:

– the date of transfer of the underlying asset to the category non-current assets held-for-sale; and

– the date of derecognition of the underlying asset.

Useful lives and applicable depreciation rates are reviewed at each year-end. During 2017, the Bank neither revised, nor made any changes to useful lives of its property and equipment.

Items of property and equipment are derecognized in case of their disposal as a result of sale, free transfer, liquidation, etc.

4.10. Intangible assets

The Bank classified within intangible assets licenses to use computer software, and acquired computer software.

Acquired intangible assets are measured at cost (historical/actual cost) including the costs incurred to acquire and bring specific items to intended use.

Subsequently, the Bank measures intangible assets at historical cost (cost), less accumulated amortization and accumulated impairment losses.

Amortization is charged on a straight-line basis. In 2017, there were no changes in amortization method and useful lives. Useful lives and amortization rates of intangible assets are revised at each year-end and when such revisions are supported by relevant reasonable feasibility studies.

Useful lives of intangible assets and the monthly rates of amortization of main categories of the intangible assets are specified below:

Description	Useful lives, years
Software packages and solutions	1 - 10
Licenses to use computer programs	1 - 10

Amortization is charged on a monthly basis applying the rates calculated referring to useful life of each individual intangible asset.

4.11. Operating leases

Operating leases are the lease contracts, under which the Bank does not assume substantially all the risks and rewards of ownership to the leased assets. Operating lease agreements entitle the lessee to make use of the non-current assets during the period not exceeding their useful lives subject to their mandatory return to the lessee as provided in the underlying agreement.

Property and equipment are transferred for operating lease at carrying amounts.

Property and equipment transferred to the Bank for operating lease are carried on the Bank's balance sheet applying the same criteria as those applied to any other property and equipment belonging to the Bank.

The items leased by the Bank represent the property and equipment used to support the Bank's operations and activity.

4.12. Investment property

Investment property is property held either to earn rental income or for capital appreciation, or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value, with changes recognized in profit or loss.

If the use of investment property changes and it is reclassified to property and equipment, fair value of investment property as at the date of reclassification becomes its cost for its subsequent accounting.

As at 31 October 2017, the Bank's investment property valuation was carried out by independent certified appraiser, LLC "Kredytno Brokerske Agentstvo". At the moment of valuation, LLC "Kredytno Brokerske Agentstvo" company held the appraiser's certificate required by the effective legislation of Ukraine and previous experience of valuation of similar properties.

4.13. Non-current assets held-for-sale

The Bank recognizes non-current assets as held-for-sale, where their carrying value is recoverable via their sale, rather than as a result of on-going use.

Non-current assets are designated as held-for-sale subject to their compliance with the following conditions as of the date of their designation: their current condition allows their immediate sale and it is highly probable that they may be sold.

Non-current assets held-for-sale are measured and accounted for at the lower of carrying amount and fair value.

Non-current assets held-for-sale are not depreciated.

4.10. Derivative financial instruments

A derivative is a financial instrument meeting the following three criteria:

(a) its value fluctuates in line with changes in effective interest rate, price of financial instrument, consumer goods price, foreign exchange rate, prices or interest rates index, credit or solvency rating or any other similar variable indicator; and

(b) it does not require initial net investments or requires initial net investments that are lower than those that would be required by other types of contracts similarly responding to changes in market condition; and

(c) it is settled on a future date.

All derivative financial instruments are initially measured and recognized at fair value. Transaction costs are recognized in expenses during their initial recognition. Transaction costs do not include any premiums or discounts stipulated under forward contracts or options.

On each balance sheet date following their initial recognition, derivative financial instruments are measured at fair value net of any transaction costs.

Financial instruments traded on stock exchanges are remeasured by the Bank based on results of each trading day (trading session) to the values equal to their quoted (settlement) prices.

Where the quotations of derivative financial instruments on active market are not available, the Bank determines their fair values using the following methods:

- by reference to a market price of another similar instrument;
- discounted cash flows analysis;
- other methods that ensure reliable measurement of fair values of derivative financial instruments.

4.15. Borrowed funds

The Bank mostly designates its own bonds to the borrowed funds category. The Bank may realize the bonds at nominal value at a discount or premium.

The Bank accrues interest and carries out amortization of discounts (premiums) on own bonds subject to the terms and conditions of their issue at least once a month during the period from the date of placement through the date of redemption of underlying securities.

The amount of amortization of discount (premium) for the reporting period is assessed using the effective interest method. The amount of amortization of discount/premium on transactions with own debt securities results in higher/lower interest expenses.

The Bank can redeem own bonds both on and in advance of their maturities (if such option is stipulated by the terms and conditions of the issue). The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. In case of early redemption of a security, the Bank amortizes respective part of the discount (premium) through the date of redemption.

4.16. Provisions

The Bank records provisions for liabilities and contingent liabilities.

Provisions for contingent liabilities are established to cover probable risks arising as the result of lawsuits claiming reimbursement of losses in favor of third parties. The Bank establishes the provision in the amount required to reimburse all reasonable contingent expenses the Bank may incur under third parties' lawsuits.

The Bank recognizes a provision for liabilities only to the extent all three following conditions are met:

- the Bank has a present (legal or constructive) debt as a result of past events;
- it is probable that an outflow of economic benefits will be required to settle the debt;
- the amount of the debt can be estimated reliably.

4.17. Employee benefits

Under Ukrainian legislation, the Bank withholds amounts payable by the employees to the statutory pension plan based on the earnings of the employees and transfers mandatory contributions to the Pension Fund of Ukraine. Furthermore, under the current statutory pension system requirements, employers are obliged to assess current payments as a percentage of the total current employees' remuneration. The cost for these contributions is recognized in the period when contributions are due and is included in salaries and employee benefits. Upon their retirement, employees receive retirement benefits from the State Pension Fund of Ukraine. The Bank is not a party to any other non-state retirement benefit plans or other material employee benefits plans that would require additional accruals.

The Bank records provisions for unused vacations.

4.18. Income tax

The Bank recognizes its current income tax payable as a liability equal to the amount calculated for the reporting period in accordance with the tax effective laws of Ukraine. According to clause 10, subclause 4 of Section XX of the Tax Code of Ukraine, in 2017 (as at 31 December 2017 and 31 December 2016) the corporate income tax rate was 18%.

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the statement of financial position date plus and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available, against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and tax liabilities attributable to the same tax and payable within the same period are offset. In years when the amount of respective deductible temporary differences exceeds the amount of taxable temporary differences, respective deferred tax assets are recognized within assets in the statement of financial position under “Deferred tax assets” caption. Otherwise, in years when the amount of taxable temporary differences exceeds the amount of deductible temporary differences, resulting deferred taxes are recognized in the statement of financial position under “Deferred tax liabilities” caption.

When assessing the portion of the unused deferred tax assets and that of outstanding deferred tax liabilities that are believed to be realized in the years after the balance sheet date, the Bank analyses the degree of probability of such realization. In case the expected taxable profit does not fully offset respective taxable temporary differences, realization of which was expected in the period, the Bank recognizes impairment of the deferred tax asset.

The recognized impairment loss is recognized in statement of profit or loss and other comprehensive income under “Income tax” caption.

Taxable profit expected in the future period is assessed referring to the business plan prepared by management and considering available feasible tax planning options.

4.19. Share capital and share premium

Share capital is the value of the shares/equity interests in the Bank contributed in cash by the Bank’s shareholders in the amount prescribed by the Charter.

Share premium represents the surplus of the funds received from initial offering or sale of the Bank's own shares (other corporate rights) over their nominal value, or the surplus of the nominal value of the shares (other corporate rights) over their redemption value.

4.20. Recognition of income and expenses

Income and expenses are accounted for on an accrual basis, that is, they are recognized in the period to which they are attributable.

Revenue from services rendered is recognized in proportion to the stage of completion of the transaction at the reporting date to the extent that the transaction result can be estimated reliably.

Interest income and expenses are recognized using the effective interest rates pro rata the time lapsed and the amount of the underlying asset (liability).

Any differences, arising between the interest income (expense) recognized using the effective interest rate and the income (expense) accrued applying the nominal interest rate on the financial instruments acquired or issued at nominal value (i.e., without any discount or premium), are recognized on the accounts of non-amortized discounts or premiums in correspondence with underlying interest income and expenses.

Commissions not included in a loan cost (e.g. commissions for cash payments and withdrawals, etc.) are recognized within commission income.

Interest income on debt securities available-for-sale, including any discounts and premiums, are recognized using the effective interest rate.

Dividends on variable-yield securities available-for-sale are recognized as income for the reporting period during their holding.

4.21. Foreign currency

Items of assets and liabilities, income and expenses arising from dealing in foreign currencies and precious metals are recognized in UAH equivalent at the official NBU foreign currencies and banking metals exchange rates ruling at the transaction dates.

Income and expenses on items denominated in foreign currencies are translated into Ukrainian hryvnias at the NBU exchange rate ruling as at the transaction date. Foreign currency accruals are translated into UAH at the exchange rate ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are recognized in the statement of financial position at the official NBU exchange rate ruling at the reporting date. As at 31 December 2017, the exchange rates of UAH established by NBU were as follows:

Currency	31 December 2017	31 December 2016
USD	28.07	27.19
EUR	33.50	28.42

All monetary items carried on the balance sheet are revaluated each time when the NBU exchange rate is revised and results are recognized within gains less losses from foreign currency translation in the statement of profit or loss and other comprehensive income.

The Bank recognizes gains and losses from dealing in foreign currencies as gains/losses from foreign currency purchase, sale and exchange transactions.

4.22. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only to the extent there is a legally enforceable right to offset and there is an intention to realize the asset and settle the liability simultaneously.

4.23. Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which a financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any impairment losses.

Effective interest rate represents the interest rate that exactly discounts the previously estimated ingoing and outgoing cash flows that will be generated during the expected period of life of the financial instrument or during period to the future date of revaluation of the instrument price to the net book value of the financial asset or liability. When assessing the present value, the effective interest rate is applied to the future ingoing and outgoing cash flows that will be generated during the whole period of life of the financial asset or liability or a shorter period in case of recurrence of certain conditions or circumstances (e.g. revision of market interest rates).

Subsequent to initial recognition, amortized cost makes it possible to allocate the revenues and expenses directly via the instrument cost reduction or increase on the dates of its amortization during the whole expected period of life of the instrument. Amortized cost determined will fluctuate depending on whether the financial assets/liabilities bear fixed or floating rates and, in case of a floating rate, subject to availability of the observable date on the interest rate volatility range. As regards instruments bearing fixed or floating rates, the future cash flows are determined for certain time horizons based on the interest (fixed or floating) rates observable during the whole period of financing. As regards financial assets/liabilities bearing floating rates whose volatility indexes are unobservable, i.e. unknown in advance (e.g. when the interest rate is linked to an index), the cash flows are determined referring to the latest observable interest rate. During the whole period of life of an investment, i.e. up to its maturity date, on each date of revision of the effective interest rate, the Bank revised the applicable amortization rate and effective interest rate. Any effects of such changes are recognized in the income statement through profit or loss.

Loans, held to maturity investments and accounts payable and securities issued are recognized at amortized cost.

4.24. Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, the Bank's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The fair value measurement framework described in IFRS 13 applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

As a result, the Bank adopted a new definition of fair value, as set out below. The change had no significant impact on the measurements of assets and liabilities.

For financial instruments, fair value is determined through the use of quoted prices obtained from active financial market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If the market for the financial instrument is not active, the Bank estimates the fair value by using a valuation technique. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The valuation techniques include:

- using market inputs that are indirectly linked to the instrument being measured and are obtained from products with similar risk characteristics;
- using – even only in part – unobservable inputs that are not derived from the market, for which estimates and assumptions made by the assessor are used.

When measuring fair value, the Bank maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Banks measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1 inputs:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available. If any Level 1 inputs are available for financial instruments, some of which might be exchanged in multiple active markets the emphasis within Level 1 is on determining both of the following:

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) whether the Banks can enter into a transaction for the asset or liability at the price in that market at the measurement date.

If the Bank holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability will be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the Bank. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

If an asset or a liability measured at fair value has a bid price and an ask price the Bank use bid prices for asset positions and ask prices for liability positions.

Level 2 inputs:

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

(i) interest rates and yield curves observable at commonly quoted intervals;

(ii) implied volatilities; and

(iii) credit spreads.

(d) market-corroborated inputs.

Adjustments to Level 2 inputs can vary depending on factors specific to the asset or liability. Those factors include the following:

(a) the condition or location of the asset;

(b) the extent to which inputs relate to items that are comparable to the asset or liability; and

(c) the volume or level of activity in the markets within which the inputs are observed.

An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs:

Level 3 inputs are unobservable inputs for the asset or liability.

This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The choice between the above valuation techniques is not free, but must follow a specific order of priority. Specifically, if quoted prices in active markets are available, as a rule the other valuation approaches cannot be used. IFRS 13 describes three different valuation techniques that may be used to measure fair value (which would be applied for Level 2 and Level 3 hierarchy based on the inputs used in the valuation techniques):

- Market approach: uses prices comparison and other relevant information from market transaction involving identical or similar assets or liabilities.
- Income approach: converts future amounts (e.g. cash flows or income and expenses) to a single current (discounted) amount reflecting current market expectations about those future amounts.
- Cost approach: reflects the amount required currently to replace the service capacity of an asset (frequently) referred to a current replacement cost, which differs from the cost incurred).

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, this will result in more than one technique being used.

Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

(a) new markets develop;

(b) new information becomes available;

(c) information previously used is no longer available;

(d) valuation techniques improve;

(e) market conditions change.

The Bank has formalized Market Risk Management Policy that defines the principles and tools used for the assessment, control and management of fair value, and establish the overall responsibility for measurement of fair value to Risk Management Division that is independent from operational function.

As at 31 December 2017, fair value measurement was applied to land plots and buildings appraised by an independent entity at the end of the year applying the comparable sales method or income capitalization to property and cost approach to certain infrastructure objects or specialized property with limited market information.

4.25. Operating segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

The Bank has no customers generating individually revenues in excess of 10% of its total external revenues.

Substantially all revenues from external customers are generated from services to customers that are Ukrainian residents. Substantially all assets of the Bank are located in Ukraine.

Note 5. New and amended standards

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

The following standards are expected to have a material impact on the Bank’s financial statements in the period of initial application.

(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. This standard replaces the rules of 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 Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank’s equity at 1 January 2018 is approximately UAH 14,678 thousand, representing:

a reduction of approximately 14,678 thousand related to impairment requirements (see (ii));

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 Bank to revise its accounting processes and internal controls and these changes are not yet complete;

the Bank has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;

the Bank is refining and finalizing its models for ECL calculations; and

the new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until the Bank finalizes 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 amortized 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 amortized 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 by the Bank 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.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

A financial asset is classified into one of these categories on initial recognition. See (viii) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Bank 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 realizing cash flows through the sale of assets;

how the performance of the portfolio is evaluated and reported to the Bank'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 realized.

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 Bank 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 Bank will consider:

contingent events that would change the amount and timing of cash flows;

leverage features;

prepayment and extension terms;

terms that limit the Bank'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.

All of the Bank's retail loans and certain fixed-rate corporate loans contain prepayment features.

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.

Impact assessment

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

Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.

Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortized 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. However, some of these equity investment securities are held for long-term strategic purposes and will be designated as at FVOCI on 1 January 2018.

The Bank has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of these changes (before tax) is a reduction in the Bank's equity of approximately UAH 14 678 thousand.

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 the Bank's considerable judgment 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 recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized 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.

The Bank will recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:

debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and

other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

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 judgments, 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 Bank 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 Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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(j)).

Definition of default

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

the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or

the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due the next day when 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 Bank will consider indicators that are:

qualitative: e.g. breaches of covenant;

quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and

based on data developed internally and obtained from external sources.

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 Bank 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 Bank's historical experience, expert credit assessment and forward-looking information.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date with the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

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.

Credit risk grades

The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Bank will collect performance and default information about its credit risk exposures analyzed by jurisdiction, by type of product and borrower and by credit risk grading. The Bank will employ statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator will be GDP growth.

The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

Determining whether credit risk has increased significantly

The Bank is in the process of developing a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank 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.

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 and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

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, inter alia:

instrument type;

collateral type;

contract currency;

industry; and

geographic location of the borrower.

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 Bank 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.

The Bank is planning to identify key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, estimate relationships between macro-economic variable and credit risk and credit losses.

Impact assessment

The most significant impact on the Bank'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.

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 Bank is to recalculate the gross carrying amount of the financial asset (or the amortized cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognize any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognize 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.

v. Transition

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

- The Bank 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 recognized 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.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

(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 15 at or before the date of initial application of IFRS 16.

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.

So far, the most significant impact identified is that the Bank will recognize new assets and liabilities for its operating leases of office buildings. As at 31 December 2017, the Bank had no non-cancellable operating leases.

Transition

As a lessee, the Bank 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 Bank 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 Bank is assessing the potential impact of using these practical expedients.

The Bank 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.

(c) IFRS 15 Revenue from Contracts with Customers

(d) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank's 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.*

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

			(in thousands of hryvnias)
Line	**Item**	**31.12.2017**	**31.12.2016**
1	**2**	**3**	**4**
1	Cash on hand	245,998	260,265
2	Provision for cash balances located on temporarily occupied territories	(1,513)	(1,487)
3	Balances with the National Bank of Ukraine	125,549	76,169
4	Correspondent accounts with:	718,660	582,744
4.1.	domestic banks	3,745	6,341
4.2.	foreign banks	714,915	576,403
5	Provisions for cash in correspondent accounts with other banks	(1)	-
6	**Total cash and cash equivalents**	**1,088,693**	**917,691**

Line 6 in Table 6.1 corresponds to Cash and cash equivalents in the Statement of financial position.

In accordance with Resolution No. 893 of the Management Board of the National Bank of Ukraine dated 17 December 2015 “On amendments to Resolution No. 820 of the Management Board of the National Bank of Ukraine dated 18 December 2014”, Banks transfer and keep the mandatory reserves on the correspondent account with the National Bank of Ukraine. As at 31 December 2016, the statutory amount of the mandatory reserve was UAH 70,171 thousand. The reserve was restricted for use as at 31 December 2016.

Effective 25 December 2017, the NBU amended the requirements regarding the mandatory reserve on the correspondent account with the NBU. In accordance with Resolution No. 752-рш of the Management Board of the National Bank of Ukraine dated 23 December 2017 “On creation and maintenance of mandatory reserves”, the control over the balance of the mandatory reserve on the correspondent account with the National Bank of Ukraine on a daily basis was cancelled. Accordingly, no specific reserve balance restricted for use by the Bank was available as at 31 December 2017.

As at 31 December 2017, the balance on the correspondent account with Intesa Sanpaolo S.p.A. amounts to UAH 352,232 thousand (2016: UAH 452,478 thousand), representing a significant concentration.

As at 31 December 2016 and 2017, balances in correspondent accounts were neither overdue, nor impaired.

As at 31 December 2016 and 31 December 2017, the Bank recognized a provision for the balances located in Donetsk region (31 December 2016: UAH 13 thousand; 31 December 2017: UAH 13 thousand), Lugansk region (31 December 2016: UAH 1,366 thousand; 31 December 2017: UAH 1,393 thousand), and in Autonomous Republic of Crimea (31 December 2016: UAH 108 thousand, 31 December 2017: UAH 108 thousand).

Table 6.2. Movements in provisions for cash on correspondent accounts with other banks as at 31 December 2017

			(in thousands of hryvnias)
Line	**Movements in provisions**	**Provisions for cash in correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	-	-
2	Increase in provision for impairment during the year	(1)	(1)
3	**Balance at the end of the year**	**(1)**	**(1)**

Note 7. Due from banks

Table 7.1 Due from banks

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	**Loans to banks:**	**142,875**	**-**
1.1	Short-term loans	142,875	-
2	Provision for impairment of due from banks	-	-
3	**Total due from banks, net of provisions**	**142,875**	**-**

Line 3 in Table 7.1 corresponds to Due from banks in the statement of financial position. Line 1 "Loans to banks" includes accrued income in the amount of UAH 593 thousand. As at 31 December 2017, loans were issued to Intesa Sanpaolo S.p.A. in the amount of UAH 112,269 thousand, representing a significant concentration.

Table 7.2 Credit quality analysis of due from banks as at 31 December 2017

(in thousands of hryvnias)

Line	Item	Loans	Total
1	2	3	4
1	Neither past due nor impaired:	142,875	142,875
1.1	Due from banks	142,875	142,875
2	**Total due from banks, net of provisions**	**142,875**	**142,875**

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	Loans to corporate entities	355,716	681,097
2	Loans to entrepreneurs	-	31
3	Retail mortgage loans	149,194	971,228
4	Retail consumer loans	57,005	1,196,639
5	Other retail loans	493	23,851
6	Provision for impairment of loans	(14,616)	(1,890,597)
7	**Total loans less provisions**	**547,792**	**982,249**

Line 7 in Table 8.1 corresponds to Loans and advances to customers in the statement of financial position. Changes in collection estimates can affect the impairment losses recognized. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2017 would be UAH 5,478 thousand lower/higher (31 December 2016: UAH 9,822 thousand).

Concentration of loans to customers

The Bank believes that potential concentration risk per customer may arise when at least 10% of net loan portfolio is attributable to a limited number of customers. As at 31 December 2017 and 2016, loans to 1 customer account for 12% i 14%, respectively (UAH 68,156 thousand and UAH 136,102 thousand, respectively).

Table 8.2. Movements in provisions for loan impairment during 2017

(in thousands of hryvnias)

Line	Movements in provisions	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Balance at the beginning of the year	(72,018)	(31)	(766,368)	(1,029,342)	(22,838)	(1,890,597)
2	(Increase)/ decrease in provision for impairment during the period	(2,718)	31	(20,099)	(34,645)	(288)	(57,719)
3	Bad debt written off against provision	67,666	-	774,293	1,057,253	22,730	1,921,942
4	Interest accrued on impaired loans	675	-	-	1,657	383	2,715
5	Foreign exchange differences	1,059	-	3,905	4,079	-	9,043
6	**Balance at the end of the year**	**(5,336)**	**-**	**(8,269)**	**(998)**	**(13)**	**(14,616)**

Line 2 in Table 8.2 and Line 2 in Table 6.2 correspond to Net increase in provisions for impairment of loans and advances to customers, and due from banks in the statement of profit or loss and other comprehensive income. The difference between the amount shown in Net increase in provisions for impairment of loans and advances to customers, and due from banks in the statement of profit or loss and other comprehensive income, and the amount in line 2 of Table 8.2 represent UAH 84,409 thousand of the bad debt written off against provision in the prior reporting periods and repaid during 2017 (2016: UAH 30,747 thousand) and increase in provisions for impairment of loans for which the claim right was sold during 2017, and the sale revenue was recorded within other operating income in the total amount of UAH 17,473 thousand (2016: none).

Table 8.3. Movements in provisions for loan impairment during 2016

(in thousands of hryvnias)

Line	Movements in provisions	Loans to corporate customers	Loans to private entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Balance at the beginning of the year	(120,192)	(205)	(504,808)	(1,326,083)	(19,778)	(1,971,066)
2	(Increase)/ decrease in provision for impairment during the period	(7,993)	174	(355,361)	(229,630)	(3,060)	(595,870)
3	Bad debts written off against provisions	54,903	-	96,775	613,142	26	764,846
4	Interest accrued on impaired loans	478	-	3,827	62,888	-	67,193
5	Foreign exchange differences	786	-	(6,801)	(149,659)	(26)	(155,700)
6	**Balance at the end of the year**	**(72,018)**	**(31)**	**(766,368)**	**(1,029,342)**	**(22,838)**	**(1,890,597)**

Table 8.4. Loans by economic sector

(in thousands of hryvnias)

Line	Sector	31.12.2017		31.12.2016	
1	**2**	**3**	**4**	**5**	**6**
1	Production and distribution of electric power, natural gas and water	11,537	2.05%	1	0.01%
2	Transactions with real estate, leasing, engineering and provision of services	-	0.00%	2,898	0.10%
3	Trade, repair of vehicles, household equipment, and items of personal use	131,906	23.45%	145,135	5.05%
4	Agriculture, hunting, and forestry	64,693	11.50%	126,757	4.41%
5	Processing industry	147,580	26.24%	406,336	14.14%
6	Individuals	206,692	36.76%	2,191,718	76.28%
7	Other	-	0.00%	1	0.01%
8	**Total loans and advances to customers, net of provisions**	**562,408**	**100.00%**	**2,872,846**	**100.00%**

The table below shows an analysis of gross exposure by type of collateral.

Table 8.5. Loans by type of collateral in 2017

(in thousands of hryvnias)

Line	Item	Loans to corporate customers	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Unsecured loans	-	-	274	493	767
2	Loans secured by:	355,716	149,194	56,731	-	561,641
2.1	real estate	173,384	149,194	26,802	-	349,380
2.1.1	non-residential mortgage	173,384	-	24,332	-	197,716
2.1.2	land	-	5,168	172	-	5,340
2.1.2	residential mortgage	-	144,026	2,298	-	146,324
2.2	Other assets	182,332	-	29,929	-	212,261
2.1.2	equipment	95,404	-	-	-	95,404
2.2.2	inventory	86,928	-	-	-	86,928
2.2.3	vehicles	-	-	29,929	-	29,929
3	**Total gross exposure**	**355,716**	**149,194**	**57,005**	**493**	**562,408**

The table below presents loans secured with collateral rather than fair value of the collateral.

Table 8.6. Loans by type of collateral in 2016

(in thousands of hryvnias)

Line	Item	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Unsecured loans	2,867	-	968	49,000	23,851	76,686
2	Loans secured by:	678,230	31	970,260	1,147,639	-	2,796,160
2.1	real estate	470,080	-	970,260	732,722	-	2,173,062
2.1.1	non-residential mortgage	469,164	-	6,177	176,646	-	651,987
2.1.2	land	915	-	58,236	339,273	-	398,424
2.1.2	residential mortgage	1	-	905,847	216,803	-	1,122,651
2.2	Other assets	208,150	31	-	414,917	-	623,098
2.2.1	equipment	41,415	-	-	-	-	41,415
2.2.2	inventory	166,734	-	-	-	-	166,734
2.2.3	vehicles	1	31	-	414,917	-	414,949
3	**Total gross exposure**	**681,097**	**31**	**971,228**	**1,196,639**	**23,851**	**2,872,846**

This table presents loans secured with collateral rather than fair value of the collateral.

Table 8.7. Analysis of loan portfolio quality as at 31 December 2017

(in thousands of hryvnias)

Line	Item	Loans to corporate customers	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7
1	Short-term not impaired loans:	355,716	135,551	53,294	486	545,047
1.1.	Large borrowers with credit history over 2 years	27,249	-	-	-	27,249
1.2.	New large borrowers	175,132	-	-	-	175,132
1.3.	Loans to medium-size businesses	153,335	-	-	-	153,335
1.4.	Other retail loans	-	135,551	53,294	486	189,331
2	Overdue, but not impaired:	-	6,422	3,207	2	9,631
2.1.	Less than 30 days	-	4,737	2,757	1	7,495
2.2.	31-90 days	-	1,685	450	1	2,136
3	Loans with specific impairment:	-	7,221	504	5	7,730

						(in thousands of hryvnias)
Line	**Item**	**Loans to corporate customers**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
3.1.	Less than 30 days	-	3,782	-	-	3,782
3.2.	31-90 days	-	-	19	-	19
3.3.	91-180 days	-	1,574	308	1	1,883
3.4.	181-360 days	-	1,865	139	3	2,007
3.5.	More than 361 days	-	-	38	1	39
4	Gross loans	355,716	149,194	57,005	493	562,408
5	Provision for impairment	(5,336)	(8,269)	(998)	(13)	(14,616)
6	**Total loans less provisions**	**350,380**	**140,925**	**56,007**	**480**	**547,792**

Table 8.8. Analysis of loan portfolio quality as at 31 December 2016

							(in thousands of hryvnias)
Line	**Item**	**Loans to corporate customers**	**Loans to private entrepreneurs**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Short-term not impaired loans:	574,169	-	174,773	101,222	981	851,145
1.1	Large borrowers with credit history over 2 years	239,618	-	-	-	-	239,618
1.2	New large borrowers	165,181	-	-	-	-	165,181
1.3	Loans to medium-size businesses	169,370	-	-	-	-	169,370
1.4	Other retail loans	-	-	174,773	101,222	981	276,976
2	Overdue, but not impaired:	-	-	16,582	11,886	48	28,516
2.1	Less than 30 days	-	-	9,173	7,256	38	16,467
2.2	31-90 days	-	-	7,409	4,630	10	12,049
3	Impaired:	106,928	31	779,873	1,083,531	22,822	1,993,185
3.1	Less than 30 days	73,453	-	10,747	6,506	-	90,706
3.2	31-90 days	-	-	119	151	-	270

(in thousands of hryvnias)

Line	Item	Loans to corporate customers	Loans to private entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
3.3	91-180 days	-	-	5,797	2,292	11	8,100
3.4	181-360 days	-	-	15,730	2,444	85	18,259
3.5	More than 361 days	33,475	31	747,480	1,072,138	22,726	1,875,850
4	Gross loans	681,097	31	971,228	1,196,639	23,851	2,872,846
5	Provision for impairment	(72,018)	(31)	(766,368)	(1,029,342)	(22,838)	(1,890,597)
6	**Total loans less provisions**	**609,079**	-	**204,860**	**167,297**	**1,013**	**982,249**

Table 8.9 Credit exposure and financial effect of collateral value

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

As at 31 December 2017, loans to customers were secured with collateral with the following fair values:

(in thousands of hryvnias)

Line	Item	Loans to customers, carrying amount as at 31 December 2017	Collateral value as at 31 December 2017
1	**2**	**3**	**4**
1	Short-term not impaired loans	536,871	196,319
2	Overdue, but not impaired	9,306	7,888
3	Impaired loans	1,615	1,615
4	**Total loans**	**547,792**	**205,822**

As at 31 December 2016, loans to customers were secured by collateral with the following fair values:

(in thousands of hryvnias)

Line	Item	Loans to customers, carrying amount as at 31 December 2016	Collateral value as at 31 December 2016
1	**2**	**3**	**4**
1	Short-term not impaired loans	834,080	347,402
2	Overdue, but not impaired	26,024	11,904
3	Impaired loans	122,145	86,832
4	**Total loans**	**982,249**	**446,138**

As at 31 December 2017, loans to customers were secured by:

- real estate and land plots with the fair value of UAH 176,272 thousand

(31 December 2016: UAH 446,101 thousand);

- vehicles with the fair value of UAH 29,550 thousand (31 December 2016: UAH 37 thousand).

Information disclosed in the tables above is based on Weighted Collateral Value (WCV), which is equal to fair value discounted according to internal Bank's policies. Value of collateral reflects the amount the Bank expects to receive in case of forced collateral realization. In calculation of WCV the Bank takes the value of collateral for each loan agreement based on the lower of carrying value of loans and value of collateral so that to exclude the effect of overcollateralization. For different types of collateral different discounts are applied according to the Bank's policies.

The more valuable collateral is used for assessment for loans that are collateralized by several types of collateral. Third party guarantees are not included for the purposes of loan impairment assessment.

The possibility of loan collection for Short-term not impaired loans depends more on the creditworthiness of borrower, rather then collateral value.

Note 9. Securities available-for-sale

Table 9.1 Securities available-for-sale

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
1	Debt securities:	2,700,812	1,692,928
1.1	government bonds	308,295	-
1.2	certificates of deposit of the National Bank of Ukraine	2,392,517	1,692,928
2	Corporate shares and other variable income securities:	34	34
2.1	measured at cost (fair value cannot be reliably measured)	34	34
3	Provision for impairment of securities available-for-sale	(31)	(31)
4	**Total securities available-for-sale less provisions**	**2,700,815**	**1,692,931**

Line 4 in Table 9.1 corresponds to Securities available-for-sale in the statement of financial position.

Certificates of deposit of the National Bank of Ukraine classified as securities available for sale have the following terms as at 31 December 2017: nominal interest rate is 12.5% - 15.25 %, maturity varies from 6 to 92 days (31 December 2016: nominal interest rate is 13%-15%, maturity varies from 2 to 14 days).

As 31 December 2017, the Bank purchased government bonds as follows: 25 thousand due on 10 January 2018; 120 thousand due on 28 February 2018; 60 thousand due on 21 March 2018; and 115 thousand due on 23 May 2018 .

Table 9.2. Credit quality analysis of debt securities available-for-sale for 2017

(in thousands of hryvnias)

Line	Item	NBU certificates of deposit	Government bonds	Total
1	**2**	**3**	**4**	**5**
1	Neither past due nor impaired:	2,392,517	308,295	2,700,812
1.1	government institutions	2,392,517	308,295	2,700,812
2	**Total debt securities available-for-sale**	**2,392,517**	**308,295**	**2,700,812**

Table 9.3. Credit quality analysis of debt securities available-for-sale for 2016

(in thousands of hryvnias)

Line	Item	NBU certificates of deposit	Total
1	**2**	**3**	**4**
1	Neither past due nor impaired:	1,692,928	1,692,928
1.1	government institutions	1,692,928	1,692,928
2	**Total debt securities available-for-sale**	**1,692,928**	**1,692,928**

Table 9.4. Movements in provision for impairment of securities available-for-sale during 2017

(in thousands of hryvnias)

Line	Movements in provisions	Corporate shares	Total
1	**2**	**3**	**4**
1	Balance as at 1 January 2017	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Balance as at 31 December 2017**	**(31)**	**(31)**

Table 9.5. Movements in provision for impairment of securities available-for-sale during 2016

(in thousands of hryvnias)

Line	Movements in provisions	Corporate shares	Total
1	**2**	**3**	**4**
1	Balance as at 1 January 2016	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Balance as at 31 December 2016**	**(31)**	**(31)**

Table 9.6. Major investments in shares and other variable income securities available-for-sale

(in thousands of hryvnias)

Line	Company name	Activity	Country of Incorporation	Measured at cost (fair value cannot be reliably measured)	
				31.12.2017	31.12.2016
1	**2**	**3**	**4**	**5**	**6**
1	CJSC Crimean Stock Exchange	Financial market management	Ukraine	11	11
2	CJSC Ukrainian Inter-Bank Currency Exchange	Financial market management	Ukraine	2	2
3	Crimean Inter-Bank Currency Exchange	Financial market management	Ukraine	20	20
4	UCE “UICE Contracting House”	Financial market management	Ukraine	1	1
5	**Total**			**34**	**34**

Note 10. Investment property

Table 10.1. Investment property measured at fair value:

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
1	Fair value of investment property at the beginning of the year	176,306	112,914
2	Sale of investment property	(6,670)	-
3	Transfer from non-current assets held-for-sale and disposal group assets	-	75,486
4	Transfer from buildings category	-	2,007
5	Losses from sale of investment properties	(25)	-
6	Fair value revaluation gain (loss)	8,370	(14,101)
7	**Fair value of investment property at the end of the year**	**177,981**	**176,306**

Line 7 in Table 10.1 corresponds to Investment property in the Statement of financial position.

Fair value of investment property items was determined to be equal to the market value net of value added tax. The targets' market value was appraised applying the comparison approach (method of adjustment of similar property value).

Investment property includes collateralized items foreclosed by the Bank. Certain investment property items worth UAH 60,395 thousand as at 31.12.2017 and UAH 50,355 thousand as at 31.12.2016 are subject to immediate sale restrictions due to administrative proceedings. The Bank believes that all restrictions will be lifted.

Table 10.1. Amounts recognized in the Statement of profit or loss and other comprehensive income

			(in thousands of hryvnias)
Line	**Income and expenses**	**31.12.2017**	**31.12.2016**
1	**2**	**3**	**4**
1	Proceeds from sale of investment properties	3,466	-

Note 11. Property, equipment and intangible assets

(in thousands of hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Motor vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
1	**Carrying value as at 01.01.2016:**	**203**	**360,337**	**36,790**	**2,919**	**1,047**	**130**	**32**	**6,820**	**197,782**	**606,060**
1.1	Historical (revalued) cost	203	365,331	192,206	10,773	8,846	4,337	20,356	6,820	362,684	971,556
1.2	Depreciation/ amortization as at 01.01.2016	-	(4,994)	(155,416)	(7,854)	(7,799)	(4,207)	(20,324)	-	(164,902)	(365,496)
2	Additions	-	-	-	3	-	-	-	11,475	-	11,478
3	Property, equipment and intangible assets put into operation	-	2,008	1,578	-	253	31	-	(9,732)	5,862	-
4	Improvements of property, equipment and intangible assets	-	680	284	550	-	-	-	(4,293)	2,779	-
5	Transfers to disposal group assets	-	(27,393)	(13,374)	(478)	(1,196)	(810)	(1,782)	(128)	(2,004)	(47,165)
6	Disposals (accumulated depreciation)	-	737	12,197	443	1,161	810	1,782	-	2,003	19,133
7	Depreciation charge	-	(17,786)	(10,678)	(903)	(430)	(79)	(21)	-	(38,497)	(68,394)
8	Impairment losses recognized in the statement of operations	-	(6,852)	-	-	-	-	-	(613)	-	(7,465)
9	Revaluation	18	(26,021)	-	-	-	-	-	-	-	(26,003)
9.1	Revaluation of historical cost	18	(42,899)	-	-	-	-	-	-	-	(42,881)
9.2	Revaluation of depreciation	-	16,878	-	-	-	-	-	-	-	16,878
10	Other	-	(2,008)	-	-	-	-	-	-	-	(2,008)

(in thousands of hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Motor vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
11	**Carrying value as at 31.12.2016/1 January 2017:**	**221**	**283,702**	**26,797**	**2,534**	**835**	**82**	**11**	**3,529**	**167,925**	**485,636**
11.1	Historical (revalued) cost	221	288,336	180,692	10,848	7,903	3,558	18,574	3,529	369,323	882,984
11.2	Depreciation/ amortization as at 31.12.2016	-	(4,634)	(153,895)	(8,314)	(7,068)	(3,476)	(18,563)	-	(201,398)	(397,348)
12	Additions	-	-	-	-	-	-	-	49,793	-	49,793
13	Property, equipment and intangible assets put into operation		-	9,385	-	4,523	529	4,819	(34,169)	14,913	-
14	Improvements of property, equipment and intangible assets	-	5,651	823	6	-	-	1,635	15,549	7,434	-
15	Disposals	-	(23,217)	(14,698)	(13)	(1,472)	(1,778)	(2,324)	(136)	(137)	(43,775)
16	Disposals (accumulated depreciation)	-	740	14,015	9	1,451	1,749	2,324	-	132	20,420
17	Depreciation charge	-	(15,028)	(10,054)	(1,063)	(334)	(38)	(276)	-	(39,649)	(66,442)
18	Revaluation	5	20,779	-	-	-	-	-	-	-	20,784
18.1	Revaluation of historical cost	5	6,265	-	-	-	-	-	-	-	6,270
18.2	Revaluation of depreciation	-	14,514	-	-	-	-	-	-	-	14,514
19	**Carrying value as at 31.12.2017**	**226**	**272,627**	**26,268**	**1,473**	**5,003**	**544**	**6,189**	**3,468**	**150,618**	**466,416**
19.1	Historical (revalued) cost	226	277,035	176,202	10,841	10,954	2,308	22,703	3,468	391,533	895,270
19.2	Depreciation/ amortization as at 31.12.2017	-	(4,408)	(149,934)	(9,368)	(5,951)	(1,764)	(16,514)	-	(240,915)	(428,854)

As at 31 December 2017, there are no property and equipment items that are:
- legally restricted for ownership, use, and disposal;
- pledged;
- temporarily not in use (reserve, reconstruction, etc.);
- restricted in terms of ownership;
- withdrawn from use.

As at 31 December 2017, historical (revalued) cost of fully depreciated/amortized property, equipment, intangible assets and other non-current assets amounts to UAH 204,943 thousand. (2016: UAH 195,383 thousand):
- property and equipment - UAH 115,972 thousand (2016: UAH 108,337 thousand)
- property and equipment - UAH 78,813 thousand (2016: UAH 68,589 thousand)
- other non-current assets - UAH 10,158 thousand (2016: UAH 18,457 thousand)

As at 31 December 2017, the costs caused by the impairment of property and equipment (in ATO zone) are as follows:
- UAH 0 thousand recognized directly in equity (2016: UAH 636.6 thousand)

As at 31 December 2017, the cost of the internally designed intangible assets comprised UAH 47 thousand (2016: UAH 0 thousand)

Note 12. Other financial assets

Table 12.1. Other financial assets

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
1	Accounts receivable due from customers	15,527	14,835
2	Amounts due on accrued income from cash and settlement services and other accrued income	1,852	3,024
3	Accounts receivable on credit and debit card operations	25,026	19,066
4	Due from customers	932	932
5	Cash collected from self-service complexes	-	3,154
6	Other	413	1,516
7	Provision for impairment	(10,670)	(10,878)
8	**Total other financial assets less provisions**	**33,080**	**31,649**

Line 8 in Table 12.1 corresponds to Other financial assets caption of the Statement of financial position.

Table 12.2. Movements in provision for impairment of other financial assets during 2017

(in thousands of hryvnias)

Line	Movements in provisions	Due from customers	Amounts due on overdue accrued income from cash and settlement services and other accrued income	Due from customers	Other	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance as at 1 January 2017	(8,976)	(553)	(932)	(417)	(10,878)
2	(Increase)/decrease in provision for impairment during the year	(91)	182	-	151	242
3	Bad debts written off	-	-	-	-	-
4	Foreign exchange differences on provisions	(34)	-	-	-	(34)

						(in thousands of hryvnias)
Line	**Movements in provisions**	**Due from customers**	**Amounts due on overdue accrued income from cash and settlement services and other accrued income**	**Due from customers**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
5	**Balance as at 31 December 2017**	**(9,101)**	**(371)**	**(932)**	**(266)**	**(10,670)**

Total of Line 2 balances in Table 12.2 and Table 13.2 presents Net (increase) in provision for impairment of accounts receivable and other financial assets in the Statement of profit or loss and other comprehensive income. The difference of UAH 20 thousand between the amount of Net (increase) in provision for impairment of accounts receivable and other financial assets in the Statement of profit or loss and other comprehensive income and total of Line 2 balances in Table 12.2 and Table 13.2 comprises bad debt written off against the provision for bad debt during prior reporting periods and recovered during 2017.

Table 12.3. Movements in provision for impairment of other financial assets during 2016

						(in thousands of hryvnias)
Line	**Movements in provisions**	**Due from customers**	**Amounts due on overdue accrued income from cash and settlement services and other accrued income**	**Due from banks**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance as at 1 January 2016	(10,320)	(177)	-	(294)	(10,791)
2	(Increase)/decrease in provision for impairment during the year	1,264	(480)	(932)	(126)	(274)
3	Bad debts written off	126	104	-	3	233
4	Foreign exchange differences on provisions	(46)	-	-	-	(46)
5	**Balance as at 31 December 2016**	**(8,976)**	**(553)**	**(932)**	**(417)**	**(10,878)**

Table 12.4. Credit quality of other financial assets in 2017

(in thousands of hryvnias)

Line	Item	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit card operations	Due from customers	Other	Total
1	2	3	4	5	6	7	8
1	Neither overdue nor impaired:	6,412	1,256	25,026	-	147	32,841
1.1	Legal entities	35	1,256	-	-	147	1,438
1.2	Individuals	6,377	-	25,026	-	-	31,403
2	Overdue, but not impaired:	-	174	-	-	-	174
2.1	Overdue up to 31 days	-	174	-	-	-	174
3	Accounts receivable with specific impairment:	9,115	422	-	932	266	10,735
3.1	Overdue up to 31 days	10	96	-	-	-	106
3.2	Overdue from 32 to 92 days	13	42	-	-	-	55
3.3	Overdue from 93 to 183 days	5	52	-	-	4	61
3.4	Overdue from 184 to 365 (366) days	65	43	-	932	65	1,105
3.5	Overdue more than 366 (367) days	9,022	189	-	-	197	9,408
4	Other financial assets, gross	15,527	1,852	25,026	932	413	43,750
5	Provision for impairment of other financial assets	(9,101)	(371)	-	(932)	(266)	(10,670)
6	**Total other financial assets less provisions**	**6,426**	**1,481**	**25,026**	**-**	**147**	**33,080**

Table 12.5. Credit quality of other financial assets in 2016

(in thousands of hryvnias)

Line	Item	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit card operations	Due from customers	Cash collected from self-service complexes	Other	Total
1	2	3	4	5	6	7	8	9
1	Neither overdue nor impaired:	5,812	1,713	19,066	-	3,154	262	30,007
1.1	Legal entities	-	1,713	-	-	3,154	262	5,129
1.2	Individuals	5,812	-	19,066	-	-	-	24,878
2	Overdue, but not impaired:	-	97	-	-	-	-	97
2.1	Overdue up to 31 days	-	97	-	-	-	-	97
3	Accounts receivable with specific impairment:	9,023	1,214	-	932	-	1,254	12,423
3.1	Overdue up to 31 days	33	978	-	-	-	1,047	2,058
3.2	Overdue from 32 to 92 days	42	29	-	-	-	-	71
3.3	Overdue from 93 to 183 days	-	75	-	-	-	-	75
3.4	Overdue from 184 to 365 (366) days	234	106	-	932	-	8	1,280
3.5	Overdue more than 366 (367) days	8,714	26	-	-	-	199	8,939
4	Other financial assets, gross	14,835	3,024	19,066	932	3,154	1,516	42,527
5	Provision for impairment of other financial assets	(8,976)	(553)	-	(932)	-	(417)	(10,878)
6	**Total other financial assets less provisions**	**5,859**	**2,471**	**19,066**	**-**	**3,154**	**1,099**	**31,649**

Note 13. Other assets

Table 13.1. Other assets

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	Accounts receivable on purchase of assets	3,126	985
2	Prepaid services	41,042	11,316
3	Precious metals	19,506	30,824
4	Taxes recoverable, other than income tax	217	259
5	Other assets	2,396	2,357
6	Provision for precious metals and other assets	(824)	(487)
7	**Total other assets less provisions**	**65,463**	**45,254**

Line 7 in Table 13.1 corresponds to Other assets in the Statement of financial position.

Table 13.2. Movements in provision for impairment of other assets during 2017

(in thousands of hryvnias)

Line	Movements in provisions	Accounts receivable on purchase of assets	Prepaid services	Precious metals	Total
1	2	3	4	5	6
1	Balance as at 1 January 2017	(42)	(143)	(302)	(487)
2	Decrease/(increase) in provision for impairment during the year	(344)	51	-	(293)
3	Bad debts written off	-	-	-	-
4	Foreign exchange differences on provisions	-	-	(44)	(44)
5	**Balance as at 31 December 2017**	**(386)**	**(92)**	**(346)**	**(824)**

Table 13.3. Movements in provision for impairment of other assets during 2016

(in thousands of hryvnias)

Line	Movements in provisions	Accounts receivable on purchase of assets	Prepaid services	Precious metals	Total
1	2	3	4	5	6
1	Balance as at 1 January 2016	(74)	(186)	(243)	(503)
2	(Increase)/decrease in provision for impairment during the year	32	(16)	-	16
3	Bad debts written off	-	59	-	59
4	Foreign exchange differences on provisions	-	-	(59)	(59)
5	**Balance as at 31 December 2016**	**(42)**	**(143)**	**(302)**	**(487)**

Note 14. Due to banks

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	Correspondent accounts	26	24
2	**Loans received:**	-	42,036
2.1	Short term	-	42,036
3	**Total due to banks**	26	42,060

Line 3 in Note 14 corresponds to Due to banks in the Statement of financial position.

Line 2, Loans received, includes accrued expenses in the amount of UAH 0 thousand as at 31.12.2017 (31.12.2016: UAH 36 thousand).

As at 31 December 2017, the Bank had balances on the investment account of its shareholder Intesa Sanpaolo S.p.A., recognized in Other financial liabilities (Note 18).

As at 31 December 2017, due to banks in the amount of UAH 25 thousand are due to PJSC Bank Sich and represent significant concentration.

As at 31 December 2016, due to banks in the amount of UAH 42,036 thousand are due to JSC Bank Avangard and represent significant concentration.

Note 15. Due to customers

Table 15.1. Due to customers

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	Government and public organizations:	9,416	6,639
1.1	Current accounts	9,052	6,539
1.2	Term deposits	364	100
2	Other legal entities	1,577,371	1,482,471
2.1	Current accounts	1,236,516	1,077,415
2.2	Term deposits	340,855	405,056
3	Individuals:	1,334,801	1,515,603
3.1	Current accounts	898,752	889,945
3.2	Term deposits	436,049	625,658
4	**Total due to customers**	**2,921,588**	**3,004,713**

Line 4 in Table 15.1 corresponds to Due to customers in the Statement of financial position. The Bank believes that potential concentration risk may arise when at least 10% of deposits from customers (net of subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2016 and 2017, deposits of 4 and 3 Bank's customers amount to UAH 300,471 thousand and UAH 299,777 thousand, respectively, representing 10% of total due to customers as at the reporting dates.

Table 15.2. Due to customers by type of activity

(in thousands of hryvnias)

Line	Type of activity	31.12.2017		31.12.2016	
		amount	%	amount	%
1	2	3	4	5	6
1	State authorities	20	0.01%	94	0.01%
2	Production and distribution of electricity, gas, and water	11,535	0.39%	12,497	0.42%
3	Real estate, lease, engineering and services	116,205	3.98%	143,068	4.76%
4	Trade, repair of vehicles, household equipment and items of personal use	368,364	12.61%	431,057	14.34%
5	Agriculture, hunting and forestry	36,093	1.24%	15,190	0.51%
6	Individuals	1,334,801	45.68%	1,515,603	50.44%
7	Processing industry	286,306	9.80%	349,080	11.62%
8	Financial and insurance services	243,049	8.32%	277,302	9.23%
9	Construction	86,155	2.95%	62,300	2.07%
10	Data and communications sector	354,449	12.13%	106,338	3.53%

					(in thousands of hryvnias)
Line	**Type of activity**	**31.12.2017**		**31.12.2016**	
		amount	**%**	**amount**	**%**
1	**2**	**3**	**4**	**5**	**6**
11	Other	84,611	2.89%	92,184	3.07%
12	**Total due to customers**	**2,921,588**	**100.00%**	**3,004,713**	**100.00%**

As at 31 December 2017, guaranteed deposits amounting to UAH 8,885 thousand are pledged to secure:

– guarantees issued amounting to UAH 8,885 thousand.

As at 31 December 2016, guaranteed deposits amounting to UAH 13,622 thousand are pledged to secure:

– guarantees issued amounting to UAH 13,622 thousand.

Note 16. Debt securities issued by the Bank

			(in thousands of hryvnias)
Line	**Item**	**31.12.2017**	**31.12.2016**
1	**2**	**3**	**4**
1	Certificates of deposit	36,926	80,708
2	**Total**	**36,926**	**80,708**

Line 2 in Note 16 corresponds to Debt securities issued by the Bank in the Statement of financial position.

As at 31.12.2017, line 1 in Note 16 "Debt securities issued by the Bank" comprises registered short-term (187 days) and long-term (367 days) certificates of deposit issued by the Bank in foreign currencies.

The Bank had no convertible debt instruments as at 31 December 2017 and 2016.

Note 17. Provisions for liabilities

Table 17.1. Movements in provisions for liabilities during 2017

						(in thousands of hryvnias)
Line	**Movements in provisions**	**Credit related commitments**	**Tax risks**	**Litigation contingencies**	**Operational risks**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Balance as at 1 January 2017**	325	5,914	4,360	-	10,599
2	(Decrease)/increase in provision for impairment during the year	28	(5,914)	(18)	1,141	(4,763)
3	Amounts repaid	-	-	(8)	-	(8)
4	Foreign exchange differences on provisions	17	-	-	-	17
5	**Closing balance as at 31 December 2017**	**370**	**-**	**4,334**	**1,141**	**5,845**

As at 31 December 2017, the Bank's contingencies arising from proceedings in administrative courts and courts of general jurisdiction are as follows:

– UAH 535 thousand on employment contract disputes;

– UAH 3,799 thousand on deposit contract disputes;

Line 2 of Table 17.1 corresponds to Net (increase) in provisions for liabilities in the Statement of profit or loss and other comprehensive income.

Line 5 in Table 17.1 corresponds to Provisions for liabilities in the Statement of financial position.

The Bank had a dispute with state authorities for the amount of UAH 56,814 thousand based on the results of its operations in 2017. Based on the estimates made by the management, the Bank has not recorded any provisions regarding this dispute as at 31 December 2017 financial statements.

Table 17.2. Movements in provisions for liabilities during 2016

(in thousands of hryvnias)

Line	Movements in provisions	Credit related commitments	Tax risks	Litigation contingencies	Total
1	2	3	4	5	6
1	**Balance as at 1 January 2016**	1,381	5,914	3,851	11,146
2	Increase/(decrease) in provision for impairment during the year	(1,168)	-	633	(535)
3	Amounts repaid	-	-	(124)	(124)
4	Foreign exchange differences on provisions	112	-	-	112
5	**Closing balance as at 31 December 2016**	**325**	**5,914**	**4,360**	**10,599**

As at 31 December 2016, the Bank's contingencies arising from proceedings in administrative courts and courts of general jurisdiction are as follows:

– UAH 561 thousand on employment contract disputes;

– UAH 3,799 thousand on deposit contract disputes;

b) Tax contingencies:

– UAH 5,914 thousand on disputes with tax authorities.

Line 2 of Table 17.2 corresponds to Net decrease/(increase) in provisions for liabilities in the Statement of profit or loss and other comprehensive income.

Line 5 in Table 17.2 corresponds to Provisions for liabilities in the Statement of financial position.

Note 18. Other financial liabilities

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	Balances on the investment account of Intesa Sanpaolo S.p.A.	1,113,905	5,111
2	Accounts payable to customers	52,273	68,134
3	Accounts payable on debit and credit cards	7,891	1,435
4	Foreign exchange transactions and settlements	2,348	11,087
5	Accounts payable for other financial instruments	956	-
6	Other accrued liabilities	1,175	984
7	**Total other financial liabilities**	**1,178,548**	**86,751**

Line 7 in Note 18 corresponds to Other financial liabilities in the Statement of financial position.

After 31.12.2017, the balances on the investment account of the shareholder were used to purchase shares for the amount of UAH 1,108,879 thousand (Note 36).

In caption 4 Accounts payable for other financial instruments recognized is the negative value of revaluation of liabilities on forward contract on purchase of currency for the amount of UAH 5,000 thousand for EUR 4,191 thousand.

Liabilities under forward contracts on purchase and sale of currency are short-term and have been repaid during January of 2018.

Note 19. Other liabilities

			(in thousands of hryvnias)
Line	**Item**	**31.12.2017**	**31.12.2016**
1	**2**	**3**	**4**
1	Taxes payable, other than income tax payable	6,113	7,927
2	Salaries payable	8,171	10,498
3	Accounts payable for assets purchased	3,720	1,835
4	Deferred income	4,329	4,887
5	Accounts payable for specialists recruitment services	3,441	3,685
6	Accounts payable for technical support and software maintenance services	917	3,145
7	Accounts payable for services and security	8,197	7,136
8	Accounts payable for services related to bad debt recovery	405	3,630
9	Accounts payable for services rendered using self-service complexes	3,614	1,722
10	Other payables	1,368	667
11	**Total other liabilities**	**40,275**	**45,132**

Line 11 in Note 19 corresponds to Other liabilities in the Statement of financial position.

Note 20. Share capital

						(in thousands of hryvnias)
Line	**Item**	**Outstanding shares (thousands)**	**Ordinary shares**	**Share premium**	**Preference share capital**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Balance as at 1 January 2016**	**1,669,604**	**1,037,137**	**3,502,964**	**870**	**4,540,971**
2	Contributions for new share issue	-	-	-	-	-
3	**Balance as at 31 December 2016 (1 January 2017)**	**1,669,604**	**1,037,137**	**3,502,964**	**870**	**4,540,971**
4	Contributions for new share issue	-	-	-	-	-
5	**Closing balance as at 31 December 2017**	**1,669,604**	**1,037,137**	**3,502,964**	**870**	**4,540,971**

As at 31 December 2017 and 2016, preference shares outstanding amount to 1,500 shares.
As at 31 December 2017 and 2016, the par value of the shares is UAH 0.58 per share.
The Bank's shareholders, holders of preference shares, have the right to:
– participate in profit distribution and receive dividends in the amount stipulated by their preference shares irrespective of the amount of Bank's net profit for respective year;
– preferences stipulated by preference share issue terms as follows: holders of registered preference shares are entitled to dividends of 18% per annum, irrespective of the amount of Bank's net profit for respective year.
In accordance with Ukrainian legislation, distributable reserves are restricted by retained earnings reported in the statutory financial statements.
On 27.11.2017, the Bank's sole shareholder took Resolution No. 3/2017 to increase the amount of the share capital via private placement of additional ordinary registered shares in exchange for cash contributions.
Terms and conditions of the shares placement:
-number of shares: 21,000,000 shares.
-the share capital expected to be increased by UAH 12,180,000.00
-period of placement: from 22 January to 1 February 2018 inclusive.
According to the Property Valuation Report: as at 01.11.2017, the Supervisory Board of PJSC CB "PRAVEX-BANK" approved the estimated value of shares in the amount of UAH 0.7396 per each

ordinary registered share and UAH 0.87 per each preference share (Resolution No. 9_17.1 dated 24.11.2017).
Temporary Certificate of registration of shares issue No. 118/1/2017-T and Prospectus of Share Issue, registered by the Securities Commission on 28.12.2017.
Subsequent to 31.12.2017, the Bank actually placed 18,481,314 ordinary registered shares under purchase and sale agreement, which is 88.0062% of the planned placement. Therefore, the share capital will be increased by UAH 10,719 thousand. The surplus of the shares sale price over their par value will be recognized in the share premium caption in the amount of UAH 1,098,160 thousands.

Note 21 Revaluation reserves (components of other comprehensive income)

Table 21.1. Revaluation reserve on securities available-for-sale

			(in thousands of hryvnias)
Line	**Item**	**31.12.2017**	**31.12.2016**
1	**2**	**3**	**4**
1.	Balance as at 1 January	-	90
2	Revaluation of securities available-for-sale:	73	(110)
2.1	change in fair value revaluation	1,868	599
2.2	impairment	(1,795)	(709)
3	Income tax related to change in revaluation reserve on securities available for sale	(13)	20
4	**Total revaluation reserves (other comprehensive income), net of income tax**	60	-

Table 21.2. Movements in revaluation reserve on property and equipment

			(in thousands of hryvnias)
Line	**Item**	**31.12.2017**	**31.12.2016**
1	**2**	**3**	**4**
1	Balance as at 1 January	267,585	315,663
2	Revaluation of property and equipment	(1,610)	(54,158)
2.1	change in fair value revaluation	19,539	17,555
2.2	impairment	(289)	(41,008)
2.3	realized gain/loss on revaluation recognized in retained earnings	(20,860)	(30,705)
3	Income tax related to revaluation of property and equipment	(2,682)	6,080
4	**Total revaluation reserves (other comprehensive income), net of income tax**	**263,293**	**267,585**

Table 21.3. Results of adjustment of value of financial instruments per transactions with shareholders

			(in thousands of hryvnias)
Line	**Item**	**31.12.2017**	**31.12.2016**
1	**2**	**3**	**4**
1.	Balance as at 1 January	-	-
2	Results of adjustment of value of financial instruments per transactions with shareholders	79	-
2.1	gain recognized on initial recognition of the financial instrument per transactions with the Bank's shareholders	351	-
2.2	(Loss) recognized on initial recognition and included in retained earnings on disposal of the financial instrument per transactions with the Bank's shareholders	(272)	-
3	Income tax attributable to the adjustment of the value of the financial instruments per transactions with the Bank's shareholders	(14)	-
4	**Total adjustments of the value of financial instruments net of income tax**	**65**	**-**

Note 22. Analysis of contractual maturities of assets and liabilities

(in thousands of hryvnias)

Line	Item	Notes	31 December 2017			31 December 2016		
			Less than 12 months	More than 12 months	total	Less than 12 months	More than 12 months	total
1	2	3	4	5	6	7	8	9
	ASSETS							
1	Cash and cash equivalents	6	1,088,693	-	**1,088,693**	917,691	-	917,691
2	Mandatory reserves with the National Bank of Ukraine		-	-	**-**	70,171	-	70,171
3	Due from banks	7	142,875	-	**142,875**	-	-	-
4	Loans and advances to customers	8	380,329	167,463	**547,792**	680,075	302,174	982,249
5	Securities available-for-sale	9	2,700,815	-	**2,700,815**	1,692,931	-	1,692,931
6	Investment property	10	-	177,981	**177,981**	-	176,306	176,306
7	Current income tax receivable		1,631	-	**1,631**	1,631	-	1,631
8	Property, equipment and intangible assets	11	-	466,416	**466,416**	-	485,636	485,636
9	Other financial assets	12	33,080	-	**33,080**	31,649	-	31,649
10	Other assets	13	65,463	-	**65,463**	45,254	-	45,254
11	**Total assets**		**4 412 886**	**811 860**	**5,224,746**	**3,439,402**	**964,116**	**4,403,518**
	LIABILITIES							
12	Due to banks	14	26	-	**26**	42,060	-	42,060
13	Due to customers	15	2,910,501	11,087	**2,921,588**	2,985,445	19,268	3,004,713
14	Debt securities issued by the Bank	16	36,926	-	**36,926**	80,708	-	80,708
15	Deferred tax liabilities		-	7,104	**7,104**	-	5,890	5,890
16	Provisions for liabilities	17	5,845	-	**5,845**	10,599	-	10,599
17	Other financial liabilities	18	1,178,454	94	**1,178,548**	86,691	60	86,751
18	Other liabilities	19	40,275	-	**40,275**	45,132	-	45,132
19	**Total liabilities**		**4,172,027**	**18,285**	**4,190,312**	**3,250,635**	**25,218**	**3,275,853**

Note 23. Interest income and expense

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
	Interest income		
1	Loans and advances to customers	95,815	263,655
2	Debt securities available-for-sale	192,102	269,712
3	Due from banks	3,648	36
4	**Total interest income**	**291,565**	**533,403**
	Interest expense:		
5	Term deposits from legal entities	(10,200)	(35,087)
6	Term deposits from individuals	(22,777)	(44,689)
7	Term deposits due to banks	(58)	(313)
8	Current accounts	(79,479)	(114,859)
9	Debt securities issued by the Bank	(874)	(2,107)
10	**Total interest expense**	**(113,388)**	**(197,055)**
11	**Net interest income**	**178,177**	**336,348**

Line 11 of Note 23 corresponds to Net interest income in the Statement of profit or loss and other comprehensive income.

Note 24. Commission income and expense

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
	COMMISSION INCOME:		
1	Cash payments and withdrawals	175,650	174,208
2	Commission for lease of safe deposit boxes	9,410	8,940
3	Commission for consulting services	44	860
4	Commission for insurance broker services	2,588	8,335
5	Commission for TaxFree check payments	1,294	1,302
6	Transactions with securities	247	181
7	Interbank operations with plastic cards	17,897	15,311
8	Commission for dealing in non-cash foreign currency for other banks	524	-
9	Guarantees issued	1	21
10	Other	148	318
11	**Total commission income**	**207,803**	**209,476**
	COMMISSION EXPENSE:		
12	Cash payments and withdrawals	(26,675)	(18,668)
13	Commission for services and other commissions	(3,710)	(3,699)
14	Commission for maintenance of self-service complexes	(46,434)	(21,455)
15	Guarantee expenses	(522)	(623)
16	Services provided by payment systems and on operations with plastic cards	(8,377)	(5,387)
17	**Total commission expense**	**(85,718)**	**(49,832)**
18	**Net commission income**	**122,085**	**159,644**

Lines 11 and 17 in Note 24 correspond to Commission income and Commission expense in the Statement of profit or loss and other comprehensive income.

Note 25. Other operating income

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
1	Operating leasing	553	406
2	Penalties and fines received	954	12,618
3	Undrawn funds upon expiration of limitation period	14,249	10,149
4	Dividends	-	65
5	Shortages charged to responsible employees	355	864
6	Proceeds from sale of investment properties	3,441	-
7	Gains from disposal of non-current assets held-for-sale	-	9,807
8	Proceeds from disposal of property and equipment	23,475	12,438
9	Proceeds from sale of claims on loans	50,420	-
10	Revaluation of property and equipment	1,534	-
11	Other	740	852
12	**Total operating income**	**95,721**	**47,199**

Line 12 of Note 25 corresponds to Other operating income in the Statement of profit or loss and other comprehensive income.

Note 26. Administrative and other operating expenses

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
1	Personnel expenses	208,844	199,750
2	Recruitment services	17,357	21,205
3	Depreciation of property and equipment	26,793	29,897
4	Amortization of software and other intangible assets	39,649	38,497
5	Maintenance of property, equipment and intangible assets, telecommunication and other operational services	168,513	146,289
6	Operating leasing expenses	16,953	19,001
7	Cash collection and transportation	2,076	2,111
8	Services provided by payment systems on payment cards	5,769	4,608
9	Expense incurred on transactions processed via self-service complexes	1	34
10	Legal services on litigations and payments to collectors	9,293	17,815
11	Professional services	38,018	34,692
12	Marketing and advertising	4,088	3,437
13	Security	7,891	6,796
14	Taxes, other than income tax	28,041	37,055
15	Other	3,228	3,649
16	**Total administrative and other operating expenses**	**576,514**	**564,836**

Line 16 in Note 26 corresponds to Administrative and other operating expenses in the Statement of profit or loss and other operating income.

Note 27. Income tax expense

Table 27.1. Income tax expense

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	**Current income tax**	**-**	**142**
2	**Change in deferred income tax resulting from:**	**1,495**	**4,474**
2.1	origination or reversal of temporary differences	1,495	4,474
2.2	increase or decrease in tax rate	-	-
3	**Total income tax benefit**	**1,495**	**4,616**

Line 3 in Table 27.1 corresponds to Income tax expense/benefit in the Statement of profit or loss and other comprehensive income.

Table 27.2. Reconciliation of accounting loss and taxable loss

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	(Loss) before tax	(111,691)	(592,997)
2	Income tax at applicable tax rate	20,104	106,739
3	Effect of permanent tax differences	641	2,500
4	Current taxes paid in respect of those recognized in previous periods	-	142
5	Changes in unrecognized deferred tax assets	(19,543)	(109,714)
6	Deferred tax asset not recognized previously (deferred tax assets derecognized)	293	4,949
7	**Income tax benefit**	**1,495**	**4,616**

Table 27.3.1 Tax effects of deferred tax assets and liabilities recognized during 2017

(in thousands of hryvnias)

Line	Item	Balance as at 1 January 2017	Recognized in profit or loss during the year	Recognized in other comprehensive income during the year	Balance as at 31 December 2017
1	2	3	4	5	6
1	**Tax effect of temporary differences**				
1.1	Property, equipment, intangible assets, and investment property	(5,890)	1,468	(2,682)	(7,104)
1.2	Securities available-for-sale	-	13	(13)	-
1.3.	Adjustment of financial instruments value on initial recognition	-	14	(14)	-
2	Net deferred tax asset (liability), including:	(5,890)	1,495	(2,709)	(7,104)
3	**Recognized deferred tax liability**	**(5,890)**	**-**	**-**	**(7 104)**

Table 27.3.2 Deferred tax assets not recognized during 2017

(in thousands of hryvnias)

Line	Item	Balance as at 1 January 2017	Changes in unrecognized deferred tax assets as per results of operations for 2017	Revised assessment of feasibility of realization of the tax differences in respect of which no DTA was recognized	Balance as at 31 January 2017
1	2	3	4	5	6
1	**Tax effect of impaired temporary differences:**				
1.1	Deferred tax losses	318,870	20,104	56,342	395,316
1.2	Due from banks and loans to customers	173,306	-	(170,507)	2,799
1.3	Provisions for liabilities	2,310	(856)	-	1,454
1.4	Other assets	2,146	28	-	2,174
1.5.	Property, equipment, intangible assets, and investment property	(512)	267	-	(245)
2	**Provision for impairment of deferred tax assets**	**(496,120)**	**(19,543)**	**114,165**	**(401,498)**
2.1	Provision for deferred tax losses	(318,870)	(76,446)	-	(395,316)
2.2	Provision for impairment of other deferred tax assets	(177,250)	171,068	-	(6,182)

Table 27.4.1 Tax effects of deferred tax assets and liabilities recognized during 2016

(in thousands of hryvnias)

Line	Item	Balance as at 31 January 2015	Recognized in profit or loss during the year	Recogniz-ed in other compre-hensive income during the year	Balance as at 31 January 2016
1	2	3	4	5	6
1	**Tax effect of temporary differences:**				
1.1	Securities available-for-sale	(20)	-	20	-
1.2	Property, equipment, intangible assets, and investment property	(16,444)	4,474	6,080	**(5,890)**
2	Net deferred tax asset (liability), including:	(16,464)	4,474	6,100	(5,890)
3	**Recognized deferred tax liability**	**(16,464)**	**-**	**-**	**(5,890)**

Table 27.4.2 Deferred tax assets not recognized during 2016

(in thousands of hryvnias)

Line	Item	Balance as at 1 January 2016	Changes in unrecognized deferred tax assets as per results of operations for 2016	Revised assessment of feasibility of realization of the tax differences in respect of which no DTA was recognized	Balance as at 31 January 2016
1	2	3	4	5	6
1	**Tax effect of impaired temporary differences:**				
1.1	Deferred tax losses	125,460	106,739	86,671	318,870
1.2	Due from banks and loans to customers	259,349	628	(86,671)	173,306
1.3	Provisions for liabilities	5,015	(2,705)	-	2,310
1.4	Other assets	-	2,146	-	2,146
1.5.	Property, equipment, intangible assets, and investment property	(3,418)	2,906	-	(512)
2	**Provision for impairment of deferred tax assets**	**(386,406)**	**(109,714)**	**-**	**(496,120)**
2.1	Provision for deferred tax losses	(125,460)	(106,739)	(86,671)	(318,870)
2.2	Provision for impairment of other deferred tax assets	(260,946)	(2,975)	86,671	(177,250)

Note 28. (Loss)/earnings per ordinary share and preference share

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
1	Loss attributable to holders of ordinary shares	(110,196)	(588,381)
2	Profit attributable to holders of ordinary shares	157	157
3	Loss for the year	(110,196)	(588,381)
4	Annual average number of ordinary shares outstanding (in thousands of shares)	1,668,104	1,668,104
5	Annual average number of preference shares outstanding (in thousands of shares)	1,500	1,500
6	Basic and diluted (loss) per ordinary share	(0.07)	(0.35)
7	Basic and diluted income per preference share	0.10	0.10

Note 29. Dividends

(in thousands of hryvnias)

Line	Item	31.12.2017		31.12.2016	
		ordinary shares	preference shares	ordinary shares	preference shares
1	2	3	4	5	6
1	Balance as at 1 January	-	-	-	-
2	Dividends declared for payment during the year	-	157	-	313
3	Increase in reserves due to dividends	-	(157)	-	(313)
4	**Balance at the end of the year**	**-**	**-**	**-**	**-**

In accordance with Shareholder's resolution No.1/2017 dated 12.04.2017, dividends on preference shares payable for 2016 were calculated and transferred to the Bank's reserves.

Note 30. Financial risk management

Substantially all lines of Bank's operations are exposed to risks. To minimize these risks, the Bank has risk measurement and control system in place operating in accordance with the Bank's internal regulations, and recommendations and requirements of the NBU. The system of internal policies of the Bank sets the framework of management systems through determination of processes, limits, functions, and responsibilities. These policies also establish risk limits and principles of risk undertaking by line of business, as well as required actions in case of exceeding limits.

In line with Intesa Sanpaolo S.p.A., Parent Company, practices, segregation of duties and responsibilities between business units and Head Risk Management Department subdivisions was implemented in the area of risk management.

Head Office of Risk Management Department is responsible for:

- development and implementation of methodology and processes for determination of credit risk limits (in accordance with Parent Company's requirements and management regulations);
- efficient assessment of risks and monitoring of loan portfolio quality;
- minimization of losses for the Bank through appropriate measures, on a case-by-case basis, aimed at debt collection;
- identification of market and operational risks, implementation of proper procedures to ensure adequate risk minimization.

The above functions are performed by the following subdivisions:

- Risk Management Department monitors credit, market and operational risks and reports to management of the Bank and Parent company, as well as determines loan terms and assesses risks inherent in any new product;
- Department of Underwriting of Loans ensures proper process of authorization of retail and corporate loans for the Bank;
- NPLs Management Department monitors the results of recovery of loan receivables and analyzes the efficiency of the products offered at different stages of the process of the loans receivables recovery (including at the stage of pre-trial recovery).

The main principle underlying Head Risk Management Department's operations consists in ensuring full segregation of duties between business units and risk management subdivisions where business units receive loan applications/products with credit risk, and the Department performs independent review and

1) takes decisions in accordance with its authority's limits, or

2) submits the preliminary assessment report to the respective body, if the amount on loan application exceeds its authority limits.

Apart from Head Risk Management Department, monitoring and management of Bank's risks are performed by the following Committees.

To ensure adequate level of risk management while maintaining proper profitability, the Bank has established Assets and Liabilities Management Committee (ALCO), Credit Risk Management Committee and NPLs Management Committee (NPLMC).

The main objective of ALCO is to safeguard Bank's capital, ensure its proper allocation, maintain proper liquidity level, with due consideration of cost and maturity profile, in compliance with the legislation, internal regulations, and the Parent Company's guidelines.

ALCO responsibilities include:

- regular monitoring and assessment of the balance sheet structure;

- monitoring of expected profitability rates versus actual results;
- overall market assessment, competitive benchmarking of the Bank;
- approval of terms and conditions of new financial products or changes in terms and conditions of existing financial products;
- based on the Group's internal regulations, elaboration of strategy and limits as regards market activity, interest rates, liquidity, and currency and operational risks;
- monitoring of adherence to limits in compliance with internal regulations and external requirements.

Credit Committee is the supreme standing body empowered to take the Bank's decisions on performing counterparties and authorized to take credit decisions in compliance with the strategic lending principles and policies acting within the limits approved by the Bank and applicable laws and internal regulations of the Group.

Scope of powers:

- discusses and makes decisions on loan proposals from the performing counterparties within the credit limits delegated to it by the Corporate bodies of the Bank;
- approves proposals submitted by the operational structural units in the credit area concerning loan proposals, which, in view of their features, importance or duration, go beyond the scope of the delegated authorities of the structural units;
- for the loan proposals that exceed the local delegated credit limits:

I. address request to the competent Credit Department of Intesa Group to obtain the Consultative Conclusion;

II. in case of the full compliance with the Consultative Conclusion received from the Parent Company, the Credit Committee takes the final decision;

III. if the Credit Committee decides not to comply with the Consultative Conclusion received from the Parent Company in full, the final decision shall be taken by the competent Corporate Body. However, the departure from the Consultative Conclusion shall be limited to some extraordinary circumstances. However, the departure from the Consultative Conclusion shall be limited to some extraordinary circumstances. Notice of the intent not to adhere (partially or in full) to the Consultative Decision should be sent to the Capital Light Bank CEO together with a exhaustive explanation of the reasons before the final decision is made. The above explanation shall also be sent to the ISP Head Office, which provided the Consultative Conclusion;

- on a quarterly basis reports to the Supervisory Board regarding all the decisions on the loans taken after receiving the consultative decisions provided by the relevant structural units of the ISP Head Office;
- approves departures from the standard provisions included into loan agreements, collateral and surety agreements, in respect of the specific loan provisions, according to the binding conclusion made by the head of the department for legal support of underwriting, financial restructuring and loan collection;
- takes decisions on any other matter based on the internal regulatory provisions, being part of his authorities.

The decisions of the Credit Committee, taken within its authority, are binding and recorded in the Minutes. The approved proposals will become effective on the day of the Committee meeting at which they were approved or some other day set by the decision of the Committee.

The Credit Committee reports about its decision to the Bank Supervisory Board at least on a quarterly basis.

The Credit Risk Management Committee is a standing decision-making body and an advisory committee which task is to provide a qualified and coordinated credit risk management within the credit limits of the Bank and in accordance with applicable laws, the regulatory positions of the Group, as well as the strategic decisions of the Parent Company. The main function of the Committee is to identify and update the strategic guidelines dealing with the credit risk, as well as the credit management policy that are based on continuous monitoring of the loan portfolio.

Scope of powers:

- periodically develops and reviews the proposals for strategic guidelines for credit risk management filed for approval by the Bank Corporate bodies;
- periodically makes sure if the application of the approved strategic guidelines is correct, and if necessary, evaluates them, and introduces the necessary changes;
- establishes and periodically reviews the credit policies and other documents on the credit risk management in accordance with adopted credit strategies approved by the Bank Corporate bodies;
- reviews the reports prepared by the risk management department and the internal audit department, as well as the related action plans in the credit risk area;
- reviews regularly the loan portfolio and the related credit risk reports, at least in respect of the following aspects:

i. risk and profitability (credit strategies);

ii. compliance with the set limits (including RAF, and concentration);

iii. overall level of the reserves;

iv. portfolio quality by segments, products, industries, geographical areas, currencies, etc.;

v. compliance with the in-house models;

vi. booked assets portfolio development and management thereof

vii. takes decisions as to the needed changes and provides relevant recommendations.

- determines the maximum indebtedness according to the key criteria (for example, market segment, industry, products, maturity, currency, etc.);
- approves the internal sub-delegation of the credit limits (for performing and non-performing loans) in the amount not exceeding the autonomous limits of the Bank and in accordance with the guidelines of the Parent Company, upon receipt of the opinion from the authorized structural units of the Head Office;
- decides on the formats of the management reporting at the national level in accordance with the rules established by the Parent Company;
- takes decision as to engaging third party specialized collectors, included in the list of service providers approved by the Supervisory Board/Management Board/Tender Committee;
- takes decisions on any other matters based on the internal regulations, being part of his authorities.

The decisions of the Credit Risk Management Committee, taken within its authority, are binding and recorded in the Minutes. The approved proposals will become effective on the day of the Committee meeting at which they were approved or some other day set by the decision of the Committee.

The Credit Risk Management Committee reports about its decisions to the Bank Supervisory Board at least on a quarterly basis.

The NPLs Management Committee is the supreme standing decision-making committee of the Bank dealing with the risky and non-performing counterparties, which primary responsibility is to take the necessary measures to prevent and reduce the risk of credit losses associated with risky assets and assets whose quality deteriorated, by acting within the limits of the credit limits of the Bank and in accordance with the applicable laws and regulatory provisions of the Group.

Scope of powers:

NPLs Management Committee:

- establishes the classification of the Borrowers, while taking it into account, approving, rejecting or making changes into the classification;
- carries out all necessary measures related to the assets which quality has deteriorated, including the formation of reserves, measures for the collection, enforcement of the pledged property, etc.;
- approves action plans related to risky counteragents within the Proactive Credit Management;
- regularly assesses effectiveness of actions and measures taken to manage specific risky counterparties and assets which quality has deteriorated;
- discusses and makes decisions on booking of the assets in the amount not exceeding the limit delegated by the competent Corporate body;
- exercises control over the management of the booked assets, providing regular updated reports;
- discusses and makes decisions on booking of the assets in the amount not exceeding the limit delegated by the competent Corporate body;
- submits for the approval by the competent Corporate body the operations coupled with booking and the initiative for the disposal of credit assets in the amount exceeding the limits delegated by Intesa Sanpaolo NPLs Management Committee;
- for loan proposals that exceed local delegated credit limits for the assets which quality has deteriorated or loan proposals that exceed local delegated credit limits for the assets which quality has deteriorated:

i. address request to the competent Credit Department of Intesa Group to obtain the Consultative Conclusion;

ii. in case of the full compliance with the Consultative Conclusion received from the Parent Company, the Credit Committee takes the final decision;

iii. If the NPLs Management Committee decides not to comply with the Consultative Conclusion received from the Parent Company in full, the final decision shall be taken by the competent Corporate Body, authorized to depart from the Consultative Conclusion. However, the departure from the Consultative Conclusion shall be limited to some extraordinary circumstances. Notice of the intent not to adhere (partially or in full) to the Consultative Decision should be sent to the Capital Lite Bank CEO together with a exhaustive explanation of the reasons before the final decision is made. The above explanation shall also be sent to the ISP Head Office, which provided the Consultative Conclusion;

- for action plans related to risky counteragents within the Proactive Credit Management, which debt exceeds the credit limits delegated to the Bank for the assets with the deteriorated quality or action plans related to risky counteragents within the Proactive Credit Management, which debt exceeds the credit limits delegated to the Bank for the assets with the deteriorated quality:

i. asks for the relevant conclusion from the competent Intesa Sanpaolo Credit Committee;

ii. approves the action plan upon receiving the relevant conclusion from ISP. In extraordinary circumstances the NPLs Management Committee may depart from the conclusion received from ISP by filing to the ISP Credit Department, which provided the conclusion, the exhaustive explanation of the reasons supporting the departure;

- on a quarterly basis to the Supervisory Board regarding all the decisions on the loans taken after receiving the consultative decisions provided by the relevant structural unit of the Head Office;

- takes decisions on any other matter based on the internal regulatory provisions, being part of his authorities.

The decisions of the NPLs Management Committee, taken within its authority, are binding and recorded in the Minutes. The approved proposals will become effective on the day of the Committee meeting at which they were approved or some other day set by the decision of the Committee.

The NPLs Management Committee reports about its decision to the Bank Supervisory Board at least on a quarterly basis.

Risk management is an essential element of the Bank's operational management. Therefore, before any major transaction is performed, it is analyzed not only for risks arising from such transaction, but also for its impact on all areas of Bank's operations, specifically on the structure of assets and liabilities, financial performance, profitability, asset quality, compliance with the NBU's requirements.

Due to the fact that the Bank's operations are concentrated in retail segment, major risks inherent to Bank's operations are credit, liquidity, interest rate, and currency risks.

Credit risk

Credit risk is the risk of expected losses on an asset as the result of default of the borrower/counterparty.

Credit risk management comprises taking management decisions aimed at generation of maximum possible income with minimum risk of loss based on quantitative and qualitative analysis of loan portfolio by line of business.

Ongoing monitoring of the loan portfolio is supported with proper control over timeliness of payments of the principal amount and interest, evaluation of borrower' financial position, and analysis of targeted use of loans.

Within credit risk management framework, the Bank develops the methodology of client tailored lending activity that contributes to high quality of the loan portfolio.

Credit risk management of the Bank includes the following activities:

- improvement of existing lending standards;
- monitoring and control over credit risk for potential non-recovery of loans and taking adequate decisions;
- solvency evaluation in light of lines of business: by counterparty, industry, competitor, etc.;
- segregation of duties in approving loan applications depending on the loan amount and potential risk;
- ensuring risk management function, non-performing loan function, and security function are in place;
- diversification of the loan portfolio, i.e. placements with numerous counterparties operating in different industries in order to avoid simultaneous default by a significant number of counterparties, investing in different assets rather than concentrating funds in one or several instruments;
- establishment of placement limits per counterparty (concentration limits) based on counterparty's financial position and scope of operations in order to minimize losses in case of default of a specific counterparty;
- obtaining negotiable collateral for loans to reduce credit risk, involvement of an independent appraiser to valuate collateral, monitoring and revaluation of collateral, check of collateral for registration in the State Register of Pledged Property.

In order to reduce credit risk, the Bank employs different types and conditions for lending operations in terms of maturity, borrowers, security, interest rates, principles of interest accrual, limits, diversification of the loan portfolio, provisioning, monitoring and control of risks.

Assessment of individual credit risk by corporate borrower envisages preliminary solvency assessment, analysis of its financial position, of internal and external environment, assessment of market position, projection of cash flows, assessment of reliability, credit history, and collateral saleability. The Bank evaluates all factors that influence risks based on qualitative and quantitative indicators using internally developed methodologies of credit risk assessment for short-term and long-term loans. Such analysis and evaluation allow classifying lending operation, identifying and summarizing credit risks related to a borrower that helps assess the probability of default by the borrower and the level of risk inherent in the lending operation.

Assessment of credit risk by individual borrower considers solvency assessment, analysis of his financial position, evaluation of quality and adequacy of collateral using the methodology of evaluation of individual borrowers and entrepreneurs. Based on such evaluation, Bank's specialists prepare the summary of borrower's financial position and classify the lending operation.

Assessment of individual credit risk by borrower in order to set lending limits is performed in accordance with relevant regulations on setting limits on lending and interbank placements. Based on this assessment, the Bank determines whether the lending operation is acceptable and the terms of the operation, i.e. maturity, amount, interest rate.

To ensure diversification of the loan portfolio, the Bank sets flexible limits for different lending activities.

Market risk

The Bank is exposed to market risks arising from changes in interest rates, foreign exchange rates, and other market prices that mostly depend on general and specific market conditions.

ALCO sets risk limits acceptable to the Bank. In managing its market risks, the Bank applies recommendations of its Parent Company, Intesa Sanpaolo SpA, which are based on the Group's instructions.

The Parent Company continuously monitors market risk faced by the Bank in compliance with policies and procedures adopted by Intesa Sanpaolo SpA Group.

- The Bank manages its market risks referring to the following internal regulations: Market Risk Management Policy approved by Resolution of the Supervisory Board No. 12_16.13.1 dated 26.10.2016 and declared by Resolution No. 294 of the Chairperson of the Board dated 19.12.2016;
- PJSC CB "PRAVEX-BANK" Guidelines of Interest Risk Management approved by Supervisory Board Resolution No. 5_17.16.1 dated 27.04.2017 and declared by Resolution No. 131 of the Chairperson of the Management Board dated 13.06.2017;
- PJSC CB "PRAVEX-BANK" Rules of Interest Risk Evaluation and Control approved by Supervisory Board Resolution No. 5_17.16.2 dated 27.04.2017 and declared by Resolution No. 131 of the Chairperson of the Management Board dated 13.06.2017;
- Financial Portfolio Management Policy approved by Resolution of the Supervisory Board No. 10_16.15.1 dated 01.08.2016 and declared by Resolution No. 317 of the Chairperson of the Management Board dated 30.12.2016;

Currency risk

Currency risk is the risk of adverse changes in net foreign exchange positions due to fluctuations of currency rates. This risk has a potential impact on the Bank's profitability and capital.

Currency risk has a direct impact on the Statement of financial position and the Statement of profit or loss and other comprehensive income, as assets and liabilities denominated in foreign currencies are to be translated into functional currency as at each reporting date.

The Bank uses limits as the key instrument for currency risk management. The Bank applies this instrument via establishment of limits on: overall open foreign exchange position of the Bank and limits and sublimits on foreign exchange position by specific currency. The system of internal limits allows comprehensive and adequate currency risk management based on principles adopted by the Bank.

In compliance with the NBU requirements, the Bank set currency risk limits and sublimits for its subdivisions for currency risk management purposes. Such limits are necessary to avoid unexpected losses from significant foreign exchange rate fluctuations.

The Bank applies the following limits:

Internal position limits:

- Limits for all currencies;
- Limits for USD;
- Limits for EUR;

Internal position sublimits:

- Sublimits for non-trade operations (cash);
- Sublimits for precious metals;
- VaR limit;

NBU limits for foreign currency position:

- Limit for long foreign currency position;
- Limit for short foreign currency position.

Control over currency risk is performed through day-to-day monitoring of net foreign exchange position and other macroeconomic indicators. Risk Management Department is responsible for determining the amount of limits and control over their adherence.

Department of Market and Operational Risk Management provides Bank's subdivisions with updated information on Bank's sensitivity to currency risk and, if market conditions significantly deteriorate, immediately reports to Risk Management Department of Intesa Sanpaolo, which takes necessary measures and immediately informs the Board of the Intesa Sanpaolo SpA Group.

Risk Management Department is responsible for:

- daily analysis of Bank's net foreign currency position;
- determination of acceptable currency risk exposure and setting limits for net foreign currency position;
- initiating revision of Bank's policy applicable to limits in case of deterioration of market conditions;
- control over adherence to approved limits by responsible subdivisions of the

Bank. ALCO is responsible for:

- approving limits;
- taking necessary measures, if approved limits exceed maximum acceptable amounts.

Adherence to established limits is binding for all subdivisions dealing with foreign exchange transactions.

Table 30.1. Currency risk analysis

(in thousands of hryvnias)

Line	Currency	As at 31 December 2017			As at 31 December 2017		
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
1	2	3	4	5	6	7	8
1	USD	726,406	874,705	(148,299)	870,231	926,156	(55,925)
2	EUR	306,299	181,461	124,838	152,786	169,933	(17,147)
3	GBP	337	371	(34)	369	277	92
4	Other	78,516	77,183	1,333	93,034	87,918	5,116
5	**Total**	**1,111,558**	**1,133,720**	**(22,162)**	**1,116,420**	**1,184,284**	**(67,864)**

Table 30.2. Sensitivity of net profit or loss and equity to potential changes in official UAH exchange rates as at the reporting date, assuming that all other variables remain constant

(in thousands of hryvnias)

Line	Item	Weighted average currency rate for 2017		Weighted average currency rate for 2016	
		Effect on profit/(loss)	Effect on equity	Effect on profit/(loss)	Effect on equity
1	2	3	4	5	6
1	20 % strengthening of USD	(29,660)	(29,660)	(11,185)	(11,185)
2	20 % weakening of USD	29,660	29,660	11,185	11,185
3	20 % strengthening of Euro	24,968	24,968	(3,429)	(3,429)
4	20 % weakening of Euro	(24,968)	(24,968)	3,429	3,429
5	20 % strengthening of GBP	(7)	(7)	19	19
6	20 % weakening of GBP	7	7	(19)	(19)
7	20 % strengthening of other currencies	267	267	1,023	1,023
8	20 % weakening of other currencies	(267)	(267)	(1,023)	(1,023)

Interest rate risk

In assessing and managing interest rate risk, the Bank uses the methodology where expected future cash flows are projected for different periods applying basis point changes in interest rates to sensitive assets and liabilities.

Key factors ensuring flexible interest rate risk management are as follows:

- liquidity aspect, i.e. availability and maintenance of sufficient liquid resources;
- price competition in lending and deposit operations by other banks;
- difficulties in forecasting movement in interest rates in Ukrainian financial market.

To mitigate interest rate risk, the Bank takes the following measures:

- prepares projections of interest rate fluctuations;
- analyses asset and liability structure on a daily basis;
- calculates and analyses movement in net interest margin on a monthly basis;
- monitors liquidity gap between assets and liabilities sensitive to interest rate fluctuations;
- performs monitoring of market interest rates for financial instruments and competitive benchmarking on a monthly basis.

Following the procedures approved by the Parent Company, the Bank prepares reports for the meetings of the Board of Directors and the Supervisory Board.

If market conditions deteriorate, Department of Market and Operational Risk Management, together with Risk Management Department of Intesa Sanpaolo S.p.A., continuously monitors situation in the market and Bank's risk exposure.

The Bank manages its interest rate risk using the following internal documents:

- PJSC CB PRAVEX-BANK Guidelines on the interest rate risk management in the bank book of the Bank, adopted by the Supervisory Board decision from 27.04.2017, No. 5_17.16.1 and brought to the attention by the decision issued by the MB Chairperson dated 13 June 2017, No. 131;
- PJSC CB PRAVEX-BANK Rules on the interest rate risk evaluation and control, adopted by the Supervisory Board decision from 27.04.2017, No. 5_17.16.2 and brought to the attention by the decision issued by the MB Chairperson dated 13 June 2017, No. 131;

Table 30.3. Interest rate risk overview

Financial assets and liabilities insensitive to interest rate fluctuations, such as mandatory reserves with the NBU, other financial assets, and other financial liabilities were not included in the overview of interest rate risk as at 31 December 2017 and 2016.

(in thousands of hryvnias)

Line	Item	On demand and less than 1 month	1 – 6 months	6 – 12 months	More than 1 year	Total
1	2	3	4	5	6	7
2017						
1	Total financial assets	3,437,807	218,467	153,820	175,556	3,985,650
2	Total financial liabilities	3,830,538	271,738	55,268	11,087	4,168,631
3	**Net interest rate gap as at the end of previous period**	**(392,731)**	**(53,271)**	**98,552**	**164,469**	**(182,981)**
2016						
4	Total financial assets	1,701,541	455,610	234,127	754,762	3,146,040
5	Total financial liabilities	264,429	417,185	96,882	18,876	797,372
6	**Net interest rate gap as at the end of previous period**	**1,437,112**	**38,425**	**137,245**	**735,886**	**2,348,668**

Table 30.4. Monitoring of interest rates on financial instruments

%

Line	Item	31.12.2017				31.12.2016			
		UAH	USD	EUR	Other	UAH	USD	EUR	Other
1	2	3	4	5	6	7	8	9	10
Assets									
1	Cash and cash equivalents	13.27	1.13	-	-	0.16	-	-	-
2	Due from banks	-	-	-	-	-	-	-	-
3	Loans and receivables	15.19	9.12	5.56	-	16.62	10.44	8.71	-
4	Debt securities available-for-sale	12.47	-	-	-	13.82	-	-	-
Liabilities									
5	Due to customers:	-	-	-	-	-	-	-	-
5.1	current accounts	2.97	0.48	0.46	-	2.33	0.31	0.12	-
5.2	term deposits	9.41	1.07	0.85	-	12.41	2.26	1.70	-
6	Debt securities issued by the Bank	-	0.52	0.50	-	-	3.10	1.50	-

Other market price risk

Other market price risk arises in connection with the Bank's investments in securities. Investments in securities are made within the prescribed limits. Limits on transactions with securities are set by the relevant committee of the Parent company. Limits are established in the light of issuers and specific issues of securities. Limits are established with the limited term of effect and thereafter reviewed.

The Treasury and Investment Banking Department initiates the necessity to establish the limits. The Risk Management Department provides assessment of the possibility to establish such limits. Then the relevant materials are submitted to the relevant committee of the Parent company.

The Risk Management Department monitors the compliance with the established limits on the permanent basis.

The Bank manages its market price risk using the following internal documents:

- PJSC CB PRAVEX-BANK Guidelines on the prudential valuation of financial instruments at fair value, adopted by the Supervisory Board decision dated 12.12.2017, No. 10_17.12.2, and brought to the attention by the decision issued by the MB Chairperson dated 26.12.2017, No. 294;
- PJSC CB PRAVEX-BANK Rules on the prudential valuation of financial instruments at fair value, adopted by the Supervisory Board decision dated 12.12.2017, No. 10_17.12.3, and brought to the attention by the decision issued by the MB Chairperson dated 26.12.2017, No. 294;
- PJSC CB PRAVEX-BANK Policy on management of financial portfolio of the Bank, adopted by the Supervisory Board decision dated 01.08.2016, No. 10_16.15.1, and brought to the attention by the decision issued by the MB Chairperson dated 30.12.2016, No. 317;

Geographic risk

Geographic risk is determined by specifics of the certain administrative and geographical region with conditions other than the average conditions in the country in general. The differences may refer to climate, national, political, legislative and other characteristics of the region that influence on the borrower's position and is a component of credit risk.

Concentration of assets and liabilities by region is shown in tables 30.5 and 30.6.

Table 30.5. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2017

(in thousands of hryvnias)

Line	Item	Ukraine	OECD	Other	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	373,779	711,391	3,523	1,088,693
2	Mandatory reserves with the National Bank of Ukraine	-	-	-	-
3	Due from banks	30,046	112,829	-	142,875
4	Loans and advances to customers	547,736	-	56	547,792
5	Securities available-for-sale	2,700,815	-	-	2,700,815
6	Other financial assets	32,475	603	2	33,080
7	**Total financial assets**	**3,684,851**	**824,823**	**3,581**	**4,513,255**
	Liabilities				
8	Due to banks	26	-	-	26
9	Due to customers	2 882 152	10,348	29,088	2,921,588
10	Debt securities issued by the Bank	36,926	-	-	36,926
11	Other financial liabilities	63,461	1,114,923	164	1,178, 548
12	**Total financial liabilities**	**2,982, 565**	**1,125,271**	**29,252**	**4,137, 088**

(in thousands of hryvnias)					
Line	**Item**	**Ukraine**	**OECD**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**
13	Net balance sheet position	702,286	(300,448)	(25,671)	376,167
14	Credit related commitments	15,694	-	-	15,694

Table 30.6. Analysis of geographic concentration of financial assets and financial liabilities for 2016

(in thousands of hryvnias)					
Line	**Item**	**Ukraine**	**OECD**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**
	Assets				
1	Cash and cash equivalents	341,288	575,026	1,377	917,691
2	Mandatory reserves with the National Bank of Ukraine	70,171	-	-	70,171
3	Loans and advances to customers	939,680	5,171	37,398	982,249
4	Securities available-for-sale	1,692,931	-	-	1,692,931
5	Other financial assets	29,245	1,368	1,036	31,649
6	**Total financial assets**	**3,073,315**	**581,565**	**39,811**	**3,694,691**
	Liabilities				
7	Due to banks	42,060	-	-	42,060
8	Due to customers	2,968,760	9,253	26,700	3,004,713
9	Debt securities issued by the Bank	80,708	-	-	80,708
10	Other financial liabilities	81,521	5,205	25	86,751
11	**Total financial liabilities**	**3,173,049**	**14,458**	**26,725**	**3,214,232**
12	Net balance sheet position	(99,734)	567,107	13,086	480,459
13	Credit related commitments	9,850	-	-	9,850

Liquidity risk

The Bank manages its liquidity risk using the following internal documents:

- PJSC CB PRAVEX-BANK Liquidity Management Procedures, adopted by the Supervisory Board decision from 27.10.2017, No. 8_17.18.1 and brought to the attention by the decision issued by the MB Chair dated 16.11.2017, No. 263;

Liquidity risk is the risk that the Bank will be unable to exercise its obligations within the established term due to lack of possibility to attract assets at the market (liquidity risk in case of financing) or sell its liquidity assets (liquidity risk of the market). The Bank is able to cover cash outflows by funds or marketable assets received, as well as due to its own ability to obtain loans. In particular, under the market crisis it becomes rather difficult (or practically impossible) to sell such marketable assets or use them in security for cash. From this point of view, the liquidity risk is closely connected with the liquidity terms at the market.

To manage the liquidity risk the Bank constantly monitors future expected cash flows at operations with customers and intra-banking transactions, which is a part of the assets/liabilities management process. The Bank determines the liquidity risk and manages it based on the internal liquidity ratios and based on liquidity ratios established by the NBU.

Liquidity risk management covers current and term liquidity management, as well as liquidity management under the extraordinary conditions.

The process of liquidity risk management of the Bank is divided into three macro zones: (I) short-term, (II) structural and (III) extraordinary plan.

Short-term liquidity comprises the system of indices, limits and threshold limits of liquidity, which the Bank is exposed within the short-term period, used for establishing of the maximum risk that the Bank is ready to challenge and ensure the best approach to its management. The short-term period is accepted as the most important period considering that in case of problems with liquidity the Bank's solvency during the first several days is the critical factor for further development of any crisis situation.

Structural liquidity involves the system of actions and limits aimed at control and management of risks, arising due to inconsistency between the maturities of medium-term/long-term assets and liabilities, which are critically important for strategic planning of liquidity management and for avoidance of further deficit of short-term liquidity.

The issues of liquidity management under the crisis situations due to deterioration of the Bank's financial position have been specified in the Contingency Plan.

The Contingency Plan determines the system of indices for identification of the unforeseen conditions that may lead to deterioration of the Bank's liquidity position. Such plan comprises the list of authorities and procedures to be implemented under the extreme conditions.

The extraordinary situation in the light of liquidity may be related to market situation or the specific banking situation, whereas in view of its duration such situation may be classified as a temporary (several days) or a long one.

The Contingency Plan provides:

- detection of the initial indices of liquidity lack, their permanent control and determination of procedures to be implemented when the lack of liquidity becomes evident;
- legitimating of the actions of management responsible for administration of the extraordinary liquidity who should be able to the quick change of assets and liabilities structure;
- a range of instruments for immediate actions and intermediation to resolve the extraordinary situation.

Table 30.7. Analysis of financial liabilities by maturities as at 31 December 2017

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2017 are as follows:

						(in thousands of hryvnias)
Line	**Item**	**On demand and up to 1 month**	**1 – 3 months**	**3 – 12 months**	**12 months to 5 years**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Due to banks	26	-	-	-	26
2	Due to customers:	2,324,198	397,718	192,242	14,237	2,928,395
2.1	Due to individuals	973,657	152,896	179,933	14,237	1,320,723
2.2	Other	1,350,541	244,822	12,309	-	1,607,672
3	Debt securities issued by the Bank	36,926	-	-	-	36,926
4	Other financial liabilities	1,175,370	159	2,925	94	1,178,548
5	Financial guarantees	9,003	-	-	-	9,003
6	Other credit-related obligations	15,694	-	-	-	15,694
7	**Total potential future payments per financial obligations**	**3,561,217**	**397,877**	**195,167**	**14,331**	**4,168,592**

Table 30.8. Analysis of financial liabilities by maturities for 2016

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2016 are as follows:

(in thousands of hryvnias)

Line	Item	On demand and up to 1	1 – 3 montshs	3 – 12 months	12 months to 5 years	Total
1	2	3	4	5	6	7
1	Due to banks	42,024	-	-	-	42,024
2	Due to customers:	2,526,367	205,629	229,977	18,918	2,980,891
2.1	Due to individuals	1,131,455	157,980	184,677	18,918	1,493,030
2.2	Other	1,394,912	47,649	45,300	-	1,487,861
3	Debt securities issued by the Bank	1,524	28,684	50,500	-	80,708
4	Other financial liabilities	104,960	578	2,261	60	107,859
5	Financial	11,673	-	-	-	11,673
6	Other credit-related obligations	9,850	-	-	-	9,850
7	**Total potential future payments per financial obligations**	**2,696,398**	**234,891**	**282,738**	**18,978**	**3,233,005**

Table 30.9. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2017

(in thousands of hryvnias)

Line	Item	On demand and up to 1 month	1 – 3 months	3 – 12 months	12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	1,088,693	-	-	-	-	1,088,693
2	Due from banks	142,875	-	-	-	-	142,875
3	Loans and receivables	61,713	143,078	175,538	146,582	20,881	547,792
3	Securities available-for-sale	2,111,683	480,756	108,376	-	-	2,700,815
4	Other financial assets	32,842	116	122	-	-	33,080
5	**Total financial assets**	**3,437,806**	**623,950**	**284,036**	**146,582**	**20,881**	**4,513,255**
	Liabilities						
6	Due to banks	26	-	-	-	-	26
7	Due to customers	2,347,199	374,322	188,980	11,087	-	2,921,588
8	Debt securities issued by the Bank	36,926	-	-	-	-	36,926
9	Other financial liabilities	1,175,370	159	2,925	94	-	1,178,548
10	**Total financial liabilities**	**3,559,521**	**374,481**	**191,905**	**11,181**	**-**	**4,137,088**
11	Net liquidity gap as at 31 December 2017	(121,715)	249,469	92,131	135,401	20,881	376,167
12	Cumulative liquidity gap as at 31 December 2017	(121,715)	127,754	219,885	355,286	376,167	-

Table 30.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2016

(in thousands of hryvnias)

Line	Item	On demand and up to 1 month	1 – 3 months	3 – 12 months	12 months to 5 years	Over 5 years	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
	Assets						
1	Cash and cash equivalents	917,691	-	-	-	-	917,691
2	Balance of mandatory reserve with NBU account	70,171	-	-	-	-	70,171
3	Loans and advances to customers	56,624	246,902	376,549	170,972	131,202	982,249
4	Securities available-for-sale	1,692,931	-	-	-	-	1,692,931
5	Other financial assets	30,978	671	-	-	-	31,649
6	**Total financial assets**	**2,768, 395**	**247,573**	**376,549**	**170,972**	**131,202**	**3,694,691**
	Liabilities						
7	Due from banks	42,060	-	-	-	-	42,060
8	Due to customers	2,543, 211	209,200	233,034	19,268	-	3,004,713
9	Debt securities issued by the Bank	1,524	28,684	50,500	-	-	80,708
10	Other financial liabilities	83,873	545	2,273	60	-	86,751
11	**Total financial liabilities**	**2,670, 668**	**238,429**	**285,807**	**19,328**	**-**	**3,214,232**
12	Net liquidity gap as at 31 December 2016	97,727	9,144	90,742	151,644	131,202	480,459
13	Cumulative liquidity gap as at 31 December 2016	97,727	106,871	197,613	349,257	480,459	-

Operational risk

The Group and the Bank determine an operational risk as the risk of losses resulting from inconsistency or failure to fulfill any procedures, incorrect actions of staff or internal systems, or because of external events. Such definition applies to a legal risk; however, strategic and reputation risks are not taken into account.

The Bank manages its operational risks using the following internal documents:

- PJSC CB PRAVEX-BANK Operational Risk Management Policy, adopted by the Supervisory Board decision dated 26.10.2016, No. 12_16.13.2 and brought to the attention by the decision issued by the MB Chairperson dated 19.12.2016, No. 294;
- PJSC CB PRAVEX-BANK Policy on Key Operational Risk Indicators Management, adopted by the Supervisory Board decision dated 27.10.2017, No. 8_17.18.3 and brought to the attention by the decision issued by the MB Chairperson dated 16.11.2017, No. 265;
- PJSC CB PRAVEX-BANK Specifications of Key Operational Risk Indicators, adopted by the Supervisory Board decision dated 27.10.2017, No. 8_17.18.3 and brought to the attention by the decision issued by the MB Chairperson dated 16.11.2017, No. 265;

Operational risk management is a part of the Bank general risk management system. The necessity of operational risk management is determined by the essential value of losses caused by the operational risk that may threaten to the Bank financial stability.

The Bank operational risk management is a structural set of processes, functions, obligations and resources for determination (identification), evaluation (measurement), monitoring and reporting about operational risk, as well as taking of relevant actions by management.

The key purposes of ORM is timely identification and minimization of operational risk, as well as its prevention. A priority is to ensure protection of assets and capital based on reduction or prevention of possible losses.

Note 31. Capital management

The Bank's shareholders give sufficient deal of interest to capital increase, specifically, to increase of the share capital as the key component of capital.

The Bank's capital is formed for the purpose of:

- highly profitable use of own assets;
- covering of all risks accepted by the Bank;
- optimization of assets and liabilities structure by ageing and investment of funds

As at 31 December 2017, the National Bank of Ukraine (the NBU) requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets computed in accordance with the NBU regulations

As at 31 December 2017 and 31 December 2016, the Bank was in compliance with regulatory capital adequacy ratio (R2) of 51.03% (31 December 2016: 45.8%).

Table 31.1. Structure of regulatory capital based on the NBU requirements

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	2	3	4
	Primary capital	**578,813**	**623,349**
1	Share capital	968,371	968,371
2	Share premium	3,502,659	3,502,659
3	Total reserves under Ukrainian legislation	1,332	1,332
4	Intangible assets	(387,897)	(369,323)
5	Amortization of intangible assets	240,915	201,398
6	Capital investments in intangible assets	(74)	-
7	Uncovered losses of past years	(3,591,150)	(3,023,901)
8	Uncovered credit risk	(47,265)	(166,207)
9	Estimated loss	(108,078)	(490,980)
	Additional capital	82,839	124,386
10	Provisions for standard indebtedness	-	41,427
11	Fixed assets revaluation result	82,839	82,959
	Deductions	**(3)**	**-**
12	Transactions with insiders	-	-
13	Shares, other securities with a variable interest rate issued by the Bank held for trading and the available-for-sale	(3)	-
14	**Total regulatory capital**	**661,649**	**747,735**

Note 32. Contingent liabilities

Capital investments commitments.

As at 31 December 2017, in accordance contractual obligations PJSC CB "PRAVEX-BANK" had contractual obligations on purchase of property and equipment, and intangible assets amounting to UAH 3,536 thousand (31 December 2016: UAH 1,476 thousand).

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
1	Outstanding credit related commitments	15,694	10,000
2	Unused credit lines	187,795	388,419
3	Export letters of credit	76,873	78,753
4	Import letters of credit	-	-
5	Other letters of credit	-	-
6	Guarantees given	9,004	11,673
7	Provision for credit related commitments	(135)	(325)
8	**Total credit related commitments less provision**	**289,231**	**488,520**

Table 32.1. Structure of credit related commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities and credit lines. Total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Table 32.2. Credit related commitments by currency

(in thousands of hryvnias)

Line	Item	31.12.2017	31.12.2016
1	**2**	**3**	**4**
1	UAH	125,202	123,449
2	USD	155,138	94,171
3	EUR	8,891	270,900
4	Other	-	-
5	**Total**	**289,231**	**488,520**

Note 33. Fair value of financial instruments

Fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, between the knowledgeable, willing and independent parties. Fair value estimates are based on the assumption that the Bank will continue its activities in future without any liquidation or essential reduction of transactions or carrying on transactions on unfavorable conditions. Fair value represents credit quality of financial instrument, as it includes the risk of counterparty's default.

Fair value estimates are based on prices received at financial markets in case of financial instruments quoted in an active market or using internal estimation methods in case of other financial instruments. Market is considered to be active when prices are easily quoted and available on the regular basis (by means of stock exchange, dealer, broker, industrial group, price informational service or regulating authority) and represent actual regular arm's length transactions between independent parties.

When the market does not operate on a regular basis, that is, it has no sufficient volatility and constant number of transactions, while the difference between purchase price and selling price is insufficient, fair value measurement is mainly based on valuation techniques aimed at establishing of the price of a hypothetic commercial transaction on an arm's length basis as at the measurement date.

Table 33.1. Analysis of financial instruments at amortized value by hierarchy level as at 31 December 2017

(in thousands of hryvnias)

	Item	Fair value by different measurement methods as at 31 December 2017			Total fair values	Total carrying value
		Quoted market price (Level I)	Valuation technique using observable inputs (Level II)	Valuation technique with significant unobservable inputs (Level III)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	1,088, 693	-	1,088,693	1,088,693
2	Due from banks	-	142,875	-	142,875	142,875
3	Loans and receivables	-	-	569,353	569,353	547,792
4	Securities available-for-sale	-	2,700,815	-	2,700,815	2,700,815
5	Other financial assets			33,080	33,080	33,080
	FINANCIAL LIABILITIES					
6	Due to banks	-	26	-	26	26
7	Due to customers	-	2,917, 756	-	2,917,756	2,921,588
8	Debt securities issued by the Bank	-	36,926	-	36,926	36,926
9	Other financial liabilities	-		1,178,548	1,178,548	1,178,548

Table 33.2. Analysis of financial instruments at amortized value by hierarchy level as at 31 December 2016

(in thousands of hryvnias)

	Item	Fair value by different measurement methods as at 31 December 2016			Total fair values	Total carrying value
		Quoted market price (Level I)	Valuation technique using observable inputs (Level II)	Valuation technique with significant unobservable inputs (Level III)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	917,691	-	917,691	917,691
2	Loans and receivables	-	-	952,658	952,658	982,249
3	Securities available-for-sale	-	1,692,931	-	1,692,931	1,692,931
4	Other financial assets			31,649	31,649	31,649
	FINANCIAL LIABILITIES					
4	Due to banks	-	42,060	-	42,060	42,060
5	Due to customers	-	2,975,123	-	2,975,123	3,004,713
6	Debt securities issued by the Bank	-	80,708	-	80,708	80,708
7	Other financial liabilities	-	-	86,751	86,751	86,751

The Bank uses the following hierarchy when measuring the fair value of financial instruments and disclosing based on the inputs used in the valuation techniques:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having maturity less than one month it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to funds on demand, savings accounts without a specific maturity, variable rate financial instruments, loans issued or deposits placed less than one month before reporting date.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and deposits is based on discounted cash flows using discount rates for assets and liabilities with similar credit risk and maturity.

For quoted shares and debts issued, the fair values are calculated based on quoted market prices on active markets for identical assets or liabilities. For shares and debts issued where quoted market prices on active markets are not available, a discounted cash flow model is used based on yield to maturity for similar financial instruments quoted on active financial markets.

Table 33.3. Significant unobservable inputs used in the measuring instruments categorized as Level 3 in the fair value hierarchy

(in thousands of hryvnias)

Year	Type of financial instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Fair value sensitivity to unobservable inputs
1	2	3	4	5	6	7
2017	Loans and receivables	569,353	Cash flow discounting	Discount rate	Currency UAH 14.93 – 28.94% Other currencies: 3.32 – 18.00%	Significant increase of discount rate results in lower values of fair value
2016	Loans and receivables	952,658	Cash flow discounting	Discount rate	Currency: UAH 10.5 – 33.29% Other currencies: 4.21 – 14.57%	Significant increase of discount rate results in lower values of fair value

Note 34. Presentation of financial instruments by measurement categories

Table 34.1. Financial assets by measurement category for 2017

(in thousands of hryvnias)

Line	Item	Loans and receivables	Assets available-for-sale	Total
1	2	3	4	5
1	Cash and cash equivalents	1,088,693	-	1,088,693
2	Due from banks	142,875	-	142,875
3	Loans and receivables	547,792	-	547,792
3.1	corporate loans	355,716	-	355,716
3.2	mortgage loans to individuals	149,194	-	149,194
3.3	consumer loans to individuals	57,005	-	57,005
3.4	other retail loans	493	-	493
3.5	provision for impairment	(14,616)	-	(14,616)
4	Securities available-for-sale	-	2,700, 815	2,700, 815
5	Other financial assets:	33,080	-	33,080

(in thousands of hryvnias)				
Line	**Item**	**Loans and receivables**	**Assets available-for-sale**	**Total**
1	**2**	**3**	**4**	**5**
5.1	receivables on transactions with customers	15,527	-	15,527
5.2	amounts due on accrued income from cash and settlement services and other accrued income	1,852	-	1,852
5.3	receivables on payment card transactions	25,026	-	25,026
5.4	due from banks	932	-	932
5.5	other financial assets	413	-	413
5.6	provision for impairment of other financial assets	(10,670)	-	(10,670)
6	**Total financial assets**	**1,812,440**	**2,700,815**	**4,513,255**

Table 34.2. Financial assets by measurement category for 2016

(in thousands of hryvnias)				
Line	**Item**	**Loans and receivables**	**Assets available-for-sale**	**Total**
1	**2**	**3**	**4**	**5**
1	Cash and cash equivalents	917,691	-	917,691
2	Mandatory reserves with the National Bank of Ukraine	70,171		70,171
3	Loans and receivables	982,249	-	982,249
3.1	corporate loans	681,097	-	681,097
3.2	loans to individual entrepreneurs	31	-	31
3.3	mortgage loans to individuals	971,228	-	971,228
3.4	consumer loans to individuals	1,196, 639	-	1,196, 639
3.5	other retail loans	23,851	-	23,851
3.6	provision for impairment	(1,890, 597)	-	(1,890,597)
4	Securities available-for-sale	-	1,692,931	1,692,931
5	Other financial assets:	31,649	-	31,649
5.1	receivables on transactions with customers	14,835	-	14,835
5.2	amounts due on accrued income from cash and settlement services and other accrued income	3,024	-	3,024
5.3	receivables on payment card transactions	19,066	-	19,066
5.4	due from banks	932	-	932
5.5	cash collected from ATMs and terminals	3,154	-	3,154
5.6	other financial assets	1,516	-	1,516
5.7	provision for impairment of other financial assets	(10,878)	-	(10,878)
6	**Total financial assets**	**2,001,760**	**1,692, 931**	**3,694, 691**

Note 35. Transactions with related parties

Assets and liabilities valuation methods applied upon recognition of transactions with related parties do not differ from generally accepted methods.
Agreements with the Bank's related parties do not envisage more favorable terms than agreements concluded with other parties.
The Bank transactions with related parties during 2017 had no material impact on the Bank financial results.

Table 35.1. Balances with related parties as at 31 December 2017

(in thousands of hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	In other foreign currency	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major shareholders												
1	Cash and cash equivalents	-	-	-	209,591	-	on demand	142,432	-	on demand	312	-	on demand
2	Due from banks	-	-	-	112,829	0.75 - 1.68%	1 – 274 days	-	-	-	-	-	-
3	Other financial assets	19	-	On demand - to 21 days	-	-		-	-	-	-	-	-
4	Other financial liabilities	1,113,884	-	On demand - to 92 days	-	-	-	983	-	on demand	-	-	-
5	Other liabilities	-	-	-	-	-	-	3,441	-	on demand	-	-	-
	Key management												
6	Loans and receivables	204	12%	from 2 days - over 10 years	-	-	-	-	-	-	-	-	-
7	Loan loss provisions	3	-	more than 10 years	-	-	-	-	-	-	-	-	-
8	Due to customers	1,186	0 - 6.06%	On demand - to 1 days	141	0 - 0.5%	On demand - to 1 days	2	0.5 - 1%	On demand - to 1 days	-	-	-
9	Other liabilities	696	-	on demand- up to 548	-	-	-	-	-	-	-	-	-

(in thousands of hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	In other foreign currency	Interest rate	Maturity
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
				days									
10	Other financial liabilities	384	-	on demand-up to 548 days	-	-	-	-	-	-	-	-	-
	Other related parties												
11	Cash and cash equivalents	-	-	-	23,995	-	on demand	-	-	-	2,993	-	on demand
12	Other financial liabilities	-	-	-	25	-	on demand	-	-	-	-	-	-
13	Other liabilities	-	-	-	-	-	-	329	-	on demand	-	-	-

Related parties comprise entities under common control, members of the Supervisory Board, key management personnel and their immediate family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

Table 35.2. Income and expenses on transactions with related parties for 2017

(in thousands of hryvnias)

Line	Item	Major shareholders	Key management	Other related parties
1	2	3	4	5
1	Interest income	2,822	29	-
2	Interest expense	-	(27)	-
3	Gains less losses arising from dealing in foreign currencies	2,098	-	-
4	Gains less losses arising from foreign currency translation	14,923	49	2,425
5	Commission income	758	27	-
6	Fee and commission expense	(2,293)	-	(422)
7	Administrative and other operating expenses	(15,817)	(27,704)	(590)

Table 35.3. Loans granted to and repaid by related parties during 2017

(in thousands of hryvnias)

Line	Item	Major shareholders	Key management
1	*2*	*3*	*4*
1	Loans granted to related parties	1,559,699	-
2	Loans repaid by related parties	1,450,422	80

Table 35.4. Balances with related parties as at 31 December 2016

(in thousands of hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	In other foreign currency	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Major shareholders													
1	Cash and cash equivalents	-	-	-	370,566	-	on demand	81,747	-	on demand	165	-	on demand
2	Other financial assets	62	-	from 2 to 31 days	-	-		-	-	-	-	-	-
3	Other financial liabilities	4,282	-	on demand	-	-	-	832	-	on demand	-	-	-
4	Other liabilities	-	-	-	-	-	-	3,600	-	on demand	-	-	-
Key management													
5	Other financial assets	1,034	-	on demand	-	-	-	-	-	-	-	-	-
6	Loans and receivables	254	12%	from 8 days - over 10 years	-	-	-	-	-	-	-	-	-
7	Loan loss provisions as at 31 December 2016	-	-	-	-	-	-	-	-	-	-	-	-
8	Due to customers	591	1 - 15%	on demand-up to 7 days	2	0.25 - 1.5%	on demand	15	0.25 - 1.5%	on demand-up to 7 days	-	-	-
9	Other liabilities	508	-	on demand-up to 365 days	-	-	-	-	-	-	-	-	-
10	Other financial liabilities	4	-	on demand-up to 365 days	-	-	-	-	-	-	-	-	-

(in thousands of hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	In other foreign currency	Interest rate	Maturity
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
Other related parties													
11	Cash and cash equivalents	-	-	-	49,912	-	on demand	-	-	-	1,026	-	on demand
12	Other financial liabilities	-	-	-	64	-	on demand	-	-	-	-	-	-
13	Other liabilities	-	-	-	-	-	-	277	-	on demand	-	-	-

Table 35.5. Income and expenses on transactions with related parties for 2016

(in thousands of hryvnias)

Line	Item	Major shareholders	Key management	Other related parties
1	2	3	4	5
1	Interest income	31	34	-
2	Interest expense	(60)	(54)	-
3	Revaluation surplus on other financial instruments at fair value through profit or loss	(959)	-	-
4	Gains less losses arising from dealing in foreign currencies	513	-	-
5	Gains less losses arising from foreign currency translation	17,503	31	7,637
6	Commission income	129	21	-
7	Fee and commission expense	(1,937)	-	(466)
8	Other operating income	65	-	-
9	Administrative and other operating expenses	(18,952)	(17,684)	(1,550)

Table 35.6. Loans granted to and repaid by related parties during 2016

(in thousands of hryvnias)

Line	Item	Key management
1	2	3
1	Loans repaid by related parties during 2016	34

Table 35.7. Remuneration to key management

(in thousands of hryvnias)

Line	Item	loss for the year 2017	Accrued liabilities as at 31.12.2017	Costs for the year 2016	Accrued liabilities as at 31.12.2016
1	2	3	4	5	6
1	Short-term employee benefits	24,523	1,059	15,678	504

The shareholder of PJSC CB “PRAVEX-BANK” is the Italian Intesa Sanpaolo Group.

Note 36. Subsequent events

Events after 31 December 2017 required no changes to financial statements.

Under the securities sale and purchase contract No. 1/18 dated 25.01.2018, the shares were placed and 88.0062% of the planned issue of shares was sold for the total of 1,108,879 thousand UAH. The said will increase the registered capital by 10,719 thousand UAH and the amount of excess over the par value of shares is to be included in the Bank`s equity as the share premium in the amount of UAH 1,098,160 thousands.

Note 37. Additional disclosure in accordance with the applicable laws of Ukraine

To comply with the National Committee for Securities and Stock Market Resolution No. 160 dated 12.02.2013 (as amended), the Bank hereby discloses the following information as at 31 December 2017:

- As at 31 December 2017 the equity of the Bank amounts to UAH 1,127,665 thousand, including:
  - share capital – UAH 1,038,007 thousand
  - share premium/discount – UAH 3,502,964 thousand
  - accumulated deficit – UAH 3,771,287 thousand
  - revaluation reserves – UAH 263,418 thousand
  - reserves and other funds – UAH 1,332 thousand

  The Bank net assets value as at 31 December 2017 exceeds the share capital which complies with art. 155, the Civil Code of Ukraine.

  The shareholders, who owns 5% and more shares as at 31 December 2017, are listed below Intesa Sanpaolo SpA, - 10121, Italy - Turin, Piazza San Carlo, 156 is the only Shareholder holding a 100% stake in the Bank (1,668,104,417 of ordinary shares and 1,500,000 of preference registered shares), and the owner of a substantial shareholding.

- The share capital of the Bank as at 31 December 2017 was formed and paid in full exclusively by cash in the amount of UAH 968,371 thousand, except for the effect of applying IAS 29 "Financial Reporting in Hyperinflationary Economies", which is confirmed by the accounting data and available bank documents.

  The effect of applying the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" in previous periods resulted in the increase in the share capital for the financial statements purposes by UAH 69,636 thousand.

- The cash contributions to the share capital in the amount of UAH 968,371 thousand were made during the issue of shares by the Bank, which took place during 1993-2015. During 2013-2015, the share capital was increased by:
  - UAH 7,250,000 (securities sale and purchase agreement No. 1/13 dated May 24, 2013; payment order No. 1 dated 24.05.2013);
  - UAH 1,295,430 (securities sale and purchase agreement No. 1/15 dated January 29, 2015; payment order No. 1 dated 29.01.2015);
  - UAH 304,906 (securities sale and purchase agreement No. 2/15 dated February 06, 2015; payment order No. 1 dated 06.02.2015);
  - UAH 148,074 (securities sale and purchase agreement No. 3/15 dated February 09, 2015; payment order No. 150400006 dated 09.02.2015);
  - UAH 1,122,242 (securities sale and purchase agreement No. 4/15 dated February 18, 2015; payment order No. 1 dated 18.02.2015);
  - UAH 1,654,044 (securities sale and purchase agreement No. 5/15 dated February 19, 2015; payment order No. 1 dated 19.02.2015);
  - UAH 1,275,304 (securities sale and purchase agreement No. 6/15 dated February 20, 2015; payment order No. 1 dated 20.02.2015);
  - UAH 3,971,569 72 kopeks (securities sale and purchase agreement No. 7/15 dated September 10, 2015; payment order No. 1 dated 10.09.2015);
  - UAH 3,318,928 78 kopeks (securities sale and purchase agreement No. 8/15 dated September 30, 2015; payment order No. 1 dated 30.09.2015);

  - UAH 6,110,063 36 kopeks (securities sale and purchase agreement No. 9/15 dated October 09, 2015; payment order No. 1 dated 09.10.2015);

- The cash contributed for the formation of the Bank capital are used for the statutory activities.
- As at 31 December 2017 The Bank established that it has no overdue liabilities in paying taxes (availability/absence of tax debt) and duties or unpaid fines for violating the laws in the financial services area, including those dealing with the securities market. The information on the disputes with the public authorities is disclosed in Note 17.1

Pursuant to the Strategy and the Profitability Plan for 2017 - 2019 PJSC CB PRAVEX-BANK (“the Bank”), approved by the Supervisory Board Resolution No. 14_16.5 dated 20.12.2016, they initiated a project to increase the capital of the Bank.

On the 27 November 2017, the sole shareholder of the Bank made decision No. 3/2017 ("the Decision") dealing with the private placement of the ordinary registered shares of the Bank and established the following placement period, namely: from 22 January 2018 to 1 February 2018 (inclusive). Shares of the additional issue were offered for private placement to the sole shareholder of the Bank - Intesa Sanpaolo S.p.A. The shares private placement was carried out in one stage of making the contracts with the first owners.

In the course of the private placement period, 1 (one) Contract for the sale and purchase of shares No. 1/18 dated 25.01.2018 was made between PJSC CB "PRAVEX-BANK" and its sole shareholder Intesa Sanpaolo S.p.A. for the total of UAH 1,108,878,840 (one billion one hundred and eight million eight hundred and seventy-eight thousand eight hundred and forty hryvnias) for 18,481,314 (eighteen million four hundred and eighty-one thousand three hundred and fourteen) ordinary registered shares, and 88.0062% of the share price was paid in comparison with the expected amount.

Based on PJSC CB PRAVEX-BANK Shareholder Resolution No.3/2017, dated 27 November 2017 ("the Shareholder Resolution"), PJSC CB PRAVEX-BANK carried out a private placement of the non-documentary ordinary registered shares.

The ordinary registered shares planned for the placement amounted to 21,000,000 (twenty one million) shares with a par value of UAH 0.58 (zero hryvnia fifty eight kopecks) per share. The total par value - UAH 12,180,000.00 (twelve million one hundred and eighty thousand hryvnia, 00 kopeks). Provisional certificate for the share issue registration is dated 28.12.2017, registration number No. 118/1/2017-T.

The shares are issued in the non-documentary form.

The additional shares of the Bank were placed at the price of UAH 60.00 (sixty hryvnias 00 kopeks) per share.

The private placement period started 22.01.2018 and ended 01.02.2018 (inclusively).

The funds received from the private placement total UAH 1,108,878,840 (one billion one hundred and eight million eight hundred and seventy-eight thousand eight hundred and forty hryvnias) (Payment Order No. 10 from 25.01.2018).

Actually, 18,481,314 (eighteen million four hundred and eighty-one thousand three hundred and fourteen) ordinary registered shares with a total nominal value of UAH 10,719,162.12 (ten million seven hundred nineteen thousand one hundred and sixty two hryvnias, 12 kopeks) were placed, which amounts to 88.0062% as compared to the expected amount. The shares were paid in accordance with the Decision and the applicable laws requirements.

Based on the Shareholder Resolution, the Bank`s Management Board approved the private placement results.

Chairman of the Board
PJSC CB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
PJSC CB "PRAVEX-BANK" **O.Yu. Kibets**

DATE: 19 February 2018

prepared by T.I. Melnyk
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Independent Auditors' Report

To Management Board of the PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRAVEX-BANK"

Opinion

We have audited the accompanying financial statements of the PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRAVEX-BANK" (hereinafter "the Bank"), which comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

JSC KPMG Audit, a company incorporated under the Laws of Ukraine (EDRPOU Code No. 31032100), a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Certificate No. 2397 of 26 January 2001 issued by the Audit Chamber of Ukraine.

Impairment of loans and advances to customers	
Please refer to Note 8 to the financial statements.	
Key audit matter	**How the matter was addressed in our audit**
Loan impairment allowances reflect management assessments of the losses incurred on loans and advances to customers. In making such assessments, management applies judgement and uses assumptions that significantly impact the amount of the loan impairment allowances. Due to the significance of loans and advances to customers and the related estimation uncertainty, their impairment assessment is deemed a key audit matter.	Our audit procedures included evaluating and testing the Bank's controls over the assessment of loan impairment, and evaluating the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairment and determining the adequacy of impairment allowances for individually assessed loans to customers through forecast recoverable cash flows, including the realisation of collateral. We compared the Bank's assumptions for both collective and individual impairment allowances to externally available industry and economic data and our own assessments in relation to the relevant inputs. As part of this, we critically assessed the Bank's revisions to estimates and assumptions in respect of historical loss rates, collateral valuation, discount rates and economic factors and considered the sensitivity of these inputs on the assessment of impairment. 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 assumptions on the expected future cash flows, including the value of realisable collateral based on our own understanding and taking into account the available market information. 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 Bank and its efficiency and to the industry trends. We evaluated the Bank's methodology used to estimate the probability of default coefficients for various categories of the Bank's customers, and calculated these coefficients based on the Bank'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 Bank. Other judgments to evaluation of the collateral and expected collateral realization costs were assessed by

	comparison to the Bank'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.

Asset fair value measurement

Please refer to Notes 4 (Accounting policies), 10 (Investment property) and 11 (Property, equipment and intangible assets) to the financial statements.

Key audit matter	*How the matter was addressed in our audit*
Investment property in the amount of UAH 177,981 thousand and certain property and equipment categories, namely buildings in the amount of UAH 272,627 thousand and land plots in the amount of UAH 226 thousand (hereinafter "the non-current assets") are carried at fair value. Evaluation of the non-current assets, including investment property, land plots and buildings required significant professional judgment of external experts that were involved in such evaluation. Therefore, fair value measurement of those non-current assets is deemed a key audit matter.	Our audit procedures particularly included: - familiarising with the Bank's significant controls related to fair value measurement of non-current assets; - analysing the competency of the external valuer engaged by management of the Bank; - engaging internal valuers to analyse the valuation results and critically assess the approaches to valuation of non-current assets and the judgments of the external valuer engaged by management of the Bank; - analysing the valuation approaches and judgments used in the asset valuation. Analysing the changes in the approaches and their compatibility with those used in the prior year valuation; - analysing the results of fair value measurement of the Bank's non-current assets in the financial statements; - assessing the disclosure of fair value of the relevant non-current assets in the financial statements.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

We communicate with 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 mattes that may be reasonably thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated to those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that the 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:

Anna Parkhomenko

Certified Auditor

ACU Certificate: # 0085 dated 29 October 2009

Deputy Director, JSC "KPMG Audit"

19 February 2018