

**PUBLIC JOINT-STOCK COMPANY
JOINT STOCK BANK “UKRGASBANK”**

Interim Condensed Financial Statements

*for the three months ended 31 March 2017
(unaudited)*

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

(in Hryvnias and in thousands)

	Notes	31 March 2017	31 December 2016
Assets			
Cash and cash equivalents	7	3,565,632	2,482,132
Precious metals		13,533	14,112
Due from credit institutions	8	7,539,443	6,521,927
Derivative financial assets	9	3,966	9,420
Loans to customers	10	21,045,733	20,351,584
Trading securities	11	372,958	386,454
Investments available for sale	12	28,135,529	19,996,757
Investments held to maturity	13	–	1,000,657
Investment property	14	49,463	50,814
Property and equipment and intangible assets	15	1,515,096	1,509,943
Assets held for sale	16	1,103,270	1,129,309
Current income tax assets		4,921	4,921
Deferred income tax assets	17	65,621	82,561
Other assets	19	317,112	365,342
Total assets		63,732,277	53,905,933
Liabilities			
Due to the National Bank of Ukraine	20	535,408	574,997
Due to credit institutions	21	1,019,663	1,105,700
Derivative financial liabilities	9	7,481	16,300
Due to customers	22	56,639,113	46,180,966
Provisions for guarantees and commitments	18	162,731	60,504
Other liabilities	19	323,103	669,560
Total liabilities		58,687,499	48,608,027
Equity			
Share capital	23	13,837,000	13,837,000
Acquired title of ownership to shares		(518,439)	(518,439)
Result from transactions with shareholders		(1,102,304)	(1,102,304)
Additional paid-in capital		135,942	135,942
Other reserves	23	318,813	593,415
Accumulated deficit		(7,626,234)	(7,647,708)
Total equity		5,044,778	5,297,906
Total equity and liabilities		63,732,277	53,905,933

Authorized and signed on behalf of the Bank's management by:

Kyrylo Shevchenko



Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

24 April 2017

Makhkamova
239-28-36

Notes on the pages from 6 to 49 form an integral part of these financial statements

**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

for the three months ended 31 March 2017

(in Hryvnias and in thousands)

	Notes	Reporting period		Previous period	
		for the current quarter	for the current quarter cumulative since the year	for the current quarter	for the current quarter cumulative since the year
Interest income					
Loans to customers		819,499	819,499	631,287	631,287
Due from credit institutions		31,348	31,348	15,991	15,991
Investments held to maturity		47,835	47,835	–	–
		898,682	898,682	647,278	647,278
Trading securities		6,154	6,154	–	–
Investments available for sale		571,832	571,832	619,417	619,417
		577,986	577,986	619,417	619,417
		1,476,668	1,476,668	1,266,695	1,266,695
Interest expense					
Due to the National Bank of Ukraine		(17,105)	(17,105)	(63,996)	(63,996)
Due to customers		(1,028,487)	(1,028,487)	(939,427)	(939,427)
Due to credit institutions		(2,913)	(2,913)	(104,242)	(104,242)
		(1,048,505)	(1,048,505)	(1,107,665)	(1,107,665)
Net interest income, before allowance for impairment of loans		428,163	428,163	159,030	159,030
Change in allowance for impairment of loans	8, 10	(136,115)	(136,115)	590,108	590,108
Net interest income, after allowance for impairment of loans		292,048	292,048	749,138	749,138
Losses on initial recognition of financial assets		(2,864)	(2,864)	(796,245)	(796,245)
Gains on initial recognition of Due to the National Bank of Ukraine		–	–	–	–
Net fee and commission income	25	113,225	113,225	64,801	64,801
Net gains on trading securities		4,774	4,774	–	–
Net gains on investments available for sale	26	8,325	8,325	4,024	4,024
Net gains on foreign exchange operations and banks precious metals	27	39,434	39,434	99,940	99,940
Result on operations with derivative financial instruments		8,729	8,729	158,440	158,440
Net gains on investment property		2,386	2,386	2,122	2,122
Other income	28	57,325	57,325	28,798	28,798
		231,334	231,334	(438,120)	(438,120)
Non-interest income					
Staff costs	29	(159,636)	(159,636)	(120,039)	(120,039)
Other operating expense	29	(185,638)	(185,638)	(128,202)	(128,202)
Depreciation and amortization	15	(36,677)	(36,677)	(19,244)	(19,244)
Change in allowance for impairment of assets and other provisions	18	(103,017)	(103,017)	(8,130)	(8,130)
		(484,968)	(484,968)	(275,615)	(275,615)
Non-interest expense					
Profit before income tax		38,414	38,414	35,403	35,403
Income tax expense	17	(16,940)	(16,940)	(6,478)	(6,478)
Net profit		21,474	21,474	28,925	28,925

Notes on the pages from 6 to 49 form an integral part of these financial statements

**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (continued)**

Notes	Reporting period		Previous period	
	for the current quarter	for the current quarter cumulative since the year	for the current quarter	for the current quarter cumulative since the year
Net profit	21,474	21,474	28,925	28,925
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Unrealized (losses) on investments available for sale	(283,532)	(283,532)	(26,717)	(26,717)
Realized profits on investments available for sale	8,930	8,930	1,691	1,691
	(274,602)	(274,602)	(25,026)	(25,026)
Total comprehensive (losses)/income	(253,128)	(253,128)	3,899	3,899
Weighted average number of shares (in thousands)	13,837,000	13,837,000	13,837,000	13,837,000
Basic and diluted net earnings per share (in UAH)	—	—	—	—

Authorized and signed on behalf of the Bank's management by:

Kyrylo Shevchenko

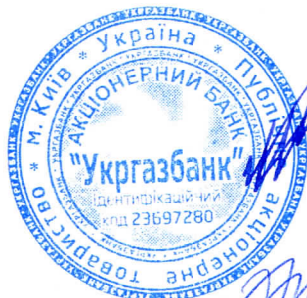
Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

24 April 2017

Makhkamova
239-28-36



INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

for the three months ended 31 March 2017

(in Hryvnias and in thousands)

	Notes	Share capital	Acquired title of ownership to shares	Result from transactions with share-holders	Additions I paid-in capital	Other reserves	Accumulated deficit	Total equity
As at 31 December 2015		13,837,000	(518,439)	(1,102,304)	135,942	(122,850)	(7,936,703)	4,292,646
Total comprehensive income for the three months of 2016		-	-	-	-	(25,026)	28,925	3,899
As at 31 March 2016		13,837,000	(518,439)	(1,102,304)	135,942	(147,876)	(7,907,778)	4,296,545
As at 31 December 2016		13,837,000	(518,439)	(1,102,304)	135,942	593,415	(7,647,708)	5,297,906
Total comprehensive income for the three months of 2017	23	-	-	-	-	(274,602)	21,474	(253,128)
As at 31 March 2017		<u>13,837,000</u>	<u>(518,439)</u>	<u>(1,102,304)</u>	<u>135,942</u>	<u>318,813</u>	<u>(7,626,234)</u>	<u>5,044,778</u>

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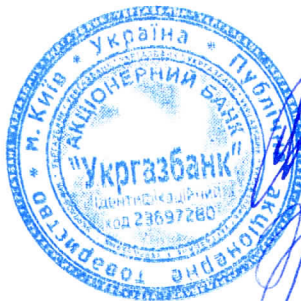
Chairman of the Management Board

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Chief Accountant

24 April 2017

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INTERIM CONDENSED STATEMENT OF CASH FLOWS (The direct method)

for the three months ended 31 March 2017

(in Hryvnias and in thousands)

	Notes	31 March 2017	31 March 2016
Cash flows from operating activities			
Interest received		1,755,641	1,292,538
Interest paid		(991,156)	(1,056,594)
Fees and commissions received		141,913	83,947
Fees and commissions paid		(32,712)	(21,891)
Net result on foreign exchange operations (realized)		12,125	99,940
Result on operations with derivative financial instruments		5,364	186,286
Other income received		11,953	27,801
Staff costs		(151,644)	(97,721)
Other operating expense		(160,363)	(59,956)
Trading result on investments in securities		9,002	971
Cash flows from operating activities before changes in operating assets and liabilities		600,123	455,321
<i>Net decrease/(increase) in operating assets</i>			
Precious metals		2,362	10,205
Due from credit institutions		(951,211)	2,030,148
Loans to customers		(856,645)	3,139,653
Other assets		48,041	(18,175)
<i>Net (decrease)/increase in operating liabilities</i>			
Due to credit institutions		(93,643)	(3,058,785)
Due to customers		10,477,324	10,402,705
Other liabilities		(365,996)	(118,243)
Income tax paid		-	-
Net cash generated from operating activities		8,860,355	12,842,829
Cash flows from investing activities			
Acquisition of investment securities and investments held to maturity		(43,788,836)	(83,096,580)
Proceeds on sale and repayment of investment securities and investments held to maturity		36,000,589	71,141,196
Acquisition of property and equipment		(40,590)	(90,312)
Proceeds on disposal of property and equipment		476	1,637
Proceeds on investment property		2,386	2,122
Proceeds on disposal of assets held for sale		96,066	-
Net cash generated (used in)/from investing activities		(7,729,909)	(12,041,937)
Cash flows from financing activities			
Proceeds of borrowed funds from credit institutions		-	-
Repayment on borrowed funds from the National Bank of Ukraine		(45,000)	(1,620,983)
Net cash generated from financing activities		(45,000)	(1,620,983)
Effect of exchange rate changes on cash and cash equivalents		(1,946)	29,107
Net (decrease)/increase in cash and cash equivalents		1,083,500	(790,984)
Cash and cash equivalents, at the beginning of the period	7	2,482,132	3,969,997
Cash and cash equivalents, at the end of the period	7	3,565,632	3,179,013

Authorized and signed on behalf of the Bank's management by:

Kyrylo Shevchenko

Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

24 April 2017

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(in Hryvnias and in thousands, unless otherwise indicated)

1. General information

Organization structure and operations

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" (the "Bank") is a legal successor of CJSC "Intergazbank" and CJSC "Khadzhibeibank" registered by the National Bank of Ukraine on 21 July 1993 (Registration # 183). The Bank is a legal successor of JSCB "Narodnyi Bank" pursuant to the agreement dated 15 January 2002 on the re-organization terms and conditions of JSCB "Narodnyi Bank" through its combination with OJSC JSB "Ukrasbank" as a branch. In September 2009, the Bank changed its name from Open Joint-Stock Company Joint Stock Bank "Ukrasbank" to PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" in accordance with the requirements of the Ukrainian legislation and the decision of the General Shareholders' Meeting dated 29 May 2009.

The Bank is engaged in accepting deposits from individuals and legal entities and extending loans, transferring payments in Ukraine and abroad, exchanging currencies and providing other banking services to its corporate and retail customers. The Bank's Head Office is located in Kyiv. As at 31 March 2017, the Bank's network consisted of 245 registered outlets (including 232 operating outlets) (2016: 245 outlets, including 231 operating outlets) in different regions of Ukraine. The Bank's registered address is as follows: Yerevanska St., 1, Kyiv, Ukraine. The Bank's Head Office is located at: Bohdana Khmelnytskoho St., 16/22, Kyiv, Ukraine.

As at 31 March 2017 and 31 December 2016 the Bank's issued shares were held by the following shareholders:

Shareholder	31 March 2017, %	31 December 2016, %
The Ministry of Finance of Ukraine	94,94	94,94
JSC "UKRAINIAN NATIONAL PAYMENT CARD"	0,73	0,73
LLC "Investanalitk"	—	—
LLC "Financial Investment Alliance"	—	—
Other	4,33	4,33
Total	100,00	100,00

As at 31 March 2017 and 31 December 2016, the Bank's ultimate controlling party was the Ukrainian government represented by the Ministry of Finance of Ukraine.

These financial statements were authorized for issue and signed by the Bank's management on 24 April 2017.

2. Operating environment and going concern

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

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

The weakness of the national currency (UAH), which experienced more than triple devaluation against US dollar (or 2.5 times devaluation against Euro) since the beginning of 2014, combined with cross border settlement restrictions, negative external trade balance, along with continued volatility in the country's traditional export commodity markets, and high inflation represent key risks to the stabilisation of the Ukrainian operating environment in the near future. The continued support from the IMF and other international donors is contingent upon the mentioned above structural reforms sustaining momentum.

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

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

(in Hryvnias and in thousands, unless otherwise indicated)

3. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of measurement

These financial statements have been prepared on the historical cost basis, except for buildings and certain financial instruments that are measured at revalued amount or fair value at the end of year, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurement is categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- ▶ level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- ▶ 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; and
- ▶ level 3 inputs are unobservable inputs for the asset or liability.

Going concern

These financial statements have been prepared on the assumption that the Bank is able to continue its activities on an ongoing basis in the near future. The Management and shareholders have the intention to further engage in economic activities of the Bank in Ukraine. Management believes that the use of assumptions about the Bank's ability to continue its operations on an ongoing basis is appropriate, given the appropriate level of adequacy of its capital commitment of shareholders to support the Bank and based on historical experience shows that short-term obligations will be refinanced in the normal course of business.

Functional and presentation currency

These financial statements are presented in UAH and in thousands, unless otherwise indicated. The functional currency of these financial statements is Hryvnia ("UAH").

4. Summary of significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recognized in the Bank's functional currency at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates effective at the respective dates. The foreign currency gains or losses are recognized in the statement of profit or loss and other comprehensive income as a net result of foreign exchange operations. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into UAH at the exchange rates at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the transaction dates.

(in Hryvnias and in thousands, unless otherwise indicated)

The differences between a contractual exchange rate on a specific transaction in a foreign currency and the official exchange rate established by the National Bank of Ukraine at the date of such a transaction are also included in the result of dealings in foreign currencies.

The official exchange rates of UAH to foreign currencies as established by the National Bank of Ukraine at the respective dates and used in the preparation of these financial statements are as follows:

Currency	31 March 2017	31 December 2016
UAH/USD	26.9761	27.1909
UAH/EUR	28.9642	28.4226

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition and subsequently may reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the date of operation, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial assets available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale and not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables. Upon initial recognition, available for sale financial assets are measured at fair value, with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. Interest calculated using the effective interest rate method is recognized through profit or loss.

Investments held to maturity

Non-derivative financial assets with fixed payments, or payments that can be identified, and with fixed maturity are classified as held to maturity if the Bank intends and is able to hold them to maturity. Investments intended to be held for an indefinite period of time are not included in this category. Investments held to maturity are subsequently measured at amortized cost. Income and expenses are recognized in the statement of profit or loss through impaired investments as well as amortization.

Measurement

Subsequent to initial recognition, financial assets, including derivatives, are measured at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- ▶ loans and receivables which are measured at amortized cost using the effective interest rate method;
- ▶ held to maturity investments that are measured at amortized cost using the effective interest rate method;
- ▶ investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise

(in Hryvnias and in thousands, unless otherwise indicated)

when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, less principal repayments, plus or minus the cumulative amortization of any difference between the initial amount recognized and the maturity amount using the effective interest rate method, less any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- ▶ a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss;
- ▶ a gain or loss on an available for sale financial asset is recognized as other comprehensive income (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available for sale financial asset is recognized in profit or loss using the effective interest rate method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash balances with the National Bank of Ukraine, obligatory deposits with the National Bank of Ukraine, due from credit institutions with maturities up to 90 days from the date of origination that are free from contractual encumbrances, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of fair value changes and are used by the Bank to manage its short-term commitments, except the deposit certificates issued by the National Bank of Ukraine.

Due from credit institutions

In the normal course of business, the Bank grants loans or maintains deposits for various periods of time with other credit institutions. Due from credit institutions is initially measured at fair value. Due from credit institutions with fixed maturities is measured at amortized cost using the effective interest rate method. Due from credit institutions are carried net of any allowance for impairment losses.

Precious metals

Precious metals are stated at the lower of net realizable value or cost. The net realizable value of precious metals is estimated based on quoted market prices. Results of translation differences on transactions with precious metals are presented in Net gains from operations with foreign currency and banks precious metals of Statements of profit or loss and other comprehensive income.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements of securities ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or re-pledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within due to credit institutions or customers. Securities purchased under agreements to resell (reverse repurchase agreements or "reverse repo") are recorded as due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest income or expense and accrued over the life of repo agreements using the effective interest rate method.

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

(in Hryvnias and in thousands, unless otherwise indicated)

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps in the foreign exchange market primarily with Ukrainian banks. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in profit or loss. The Bank assesses and calculates the fair value of its forwards and recognizes all significant changes in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value through profit or loss.

Borrowed funds

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation, other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of Ukraine, due to credit institutions, due to customers, debt securities issued, and subordinated debt. Upon initial recognition, borrowed funds are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss when the borrowed funds are derecognized, as well as through the amortization process.

If the Bank purchases its own obligations, they are removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is recognized in profit and loss.

Leases

Operating leases – the Bank as a lessee

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

Operating leases – the Bank as a lessor

The Bank presents assets held for operating leases in the statement of financial position according to the nature of the respective asset. Rental income from operating leases is recognized in profit and loss on a straight-line basis over the lease term as either net gains/losses from investment property for buildings and premises or other income. The total cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is 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 (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the 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. Objective evidence of impairment may include indications that a borrower, or a group of borrowers, is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the 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, as well as developments in technological, market, economic, and legal environment of a business entity.

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Due from credit institutions and loans to customers

For 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 financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (except for future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account, and the impairment loss is recognized in profit and loss. Interest income continues to be accrued on the reduced carrying amount based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of their future recovery, and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced through the use of the allowance account.

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

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

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

Loans to customers

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or if there are any known difficulties in the cash flows of counterparties, credit rating downgrades or breach of the original terms of the contract. The Bank assesses impairment by focusing on two areas: allowances for individually significant loans and allowances for loans assessed on a collective basis.

Allowances for individually significant loans

The Bank determines the allowance appropriate for each individually significant loan on an individual basis. Factors considered when determining the allowance include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows and other factors. Impairment losses are assessed as at each reporting date.

Allowances for loans assessed on a collective basis

Allowances for impairment losses are assessed collectively for loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are assessed as at each reporting date for each loan portfolio.

A collective assessment takes into account impairment losses that are likely to occur for a loan portfolio even though there is not yet objective evidence of the individual impairment indicators. Impairment losses are assessed by taking into consideration the following information: historical losses of the loan portfolio, current economic conditions, existence of a certain period between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. Restructuring, i.e. change in significant terms and conditions under the original agreement by entering into additional arrangements with a debtor due to its financial difficulties (as determined by the Bank) and the need to create favorable conditions for it to meet its obligations under the asset (change in interest rate; cancellation, wholly or in part, of financial sanctions (penalties, fines, forfeits) accrued for untimely payments of the principal and interest amounts and failed to be repaid by the debtor; change in the repayment schedule (terms and amounts of the principal, interest/fees); change in the fee amount).

Such renegotiated loans are accounted for as follows:

- ▶ if the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized;
- ▶ if the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows, taking into account the collateral and the carrying amount before restructuring, is included in the provision charges for the period.

The Bank's management consistently reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Write off of loans

Loans are written off against the allowance for impairment losses based on the decision of the Management Board. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as other income in the statement of profit or loss and other comprehensive income in the period of recovery.

Investment securities available for sale

The Bank assesses at each reporting date whether there is an objective evidence that an investment or a group of investments available for sale are impaired.

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

When sold, gain/(loss) earlier recognized in equity will be recognized in the statement of profit or loss and other comprehensive income. A result on the sale of investments available for sale is recognized in the statement of profit or loss and other comprehensive income on disposal and is the difference between the sales price and carrying amounts at the transaction date.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded in profit and loss. If, in a subsequent year, the fair value of a debt instrument increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit and loss, the impairment loss is reversed through profit and loss.

Non-financial assets

Other non-financial assets, other than deferred tax, are assessed at each reporting date for any indication 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 reversed is only

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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.

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and other forms of credit insurance. Financial guarantees are initially recognized in the financial statements at fair value, in 'Other Liabilities' line, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to profit or loss. The premium received is recognized in profit and loss on a straight-line basis over the life of the guarantee.

Taxation

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

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. In consideration of the changes in tax legislation of Ukraine, which entered into force since 1 January 2015, the current Bank's profit in the reporting year is determined by adjusting the financial result presented in the financial statements in accordance with International Financial Reporting Standards, the differences arising under the clauses of the tax code of Ukraine. The Bank's current tax expense is calculated using tax rates that have been enacted during such reporting periods (years).

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the balance sheet liability method. Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred tax assets and liabilities in the current year are calculated in consideration of changes in tax legislation, which came into force on 1 January 2015.

A deferred tax asset is recorded only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are

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expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that are set tax legislation of Ukraine the appropriate tax reporting periods.

Also in Ukraine tax regulations assume other taxes and duties. These taxes are included as a component of administrative and operating expense.

Investment property

Investment properties, which comprise office premises are properties, held to earn rentals from long-term leases or for capital appreciation and are not occupied by the Bank. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at revalued amounts, which are their fair values at the date of revaluation and are determined based on the market evidence as a result of valuations performed by independent appraisers, less any subsequently accumulated impairment losses. Revaluation is performed with sufficient regularity so that the carrying amounts did not differ significantly from those arrived at using fair value as at the reporting date. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Property and equipment

Property and equipment, other than buildings and land plots, are carried at their historical cost, less any accumulated depreciation and recognized impairment losses, if any.

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

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

In addition, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

	<u>Years</u>
Buildings	50
Furniture and equipment	3-10
Leasehold improvements	Over the relevant lease period
Motor vehicles	5

Residual value, useful lives, and depreciation methods are reviewed and adjusted as appropriate, at each reporting date.

Costs related to repairs and renewals are charged when incurred and included in other operating and administrative expense, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Upon initial recognition, intangible assets are carried at cost, less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

An item of property and equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on the disposal of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income.

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Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Events or circumstances may extend the period to complete the sale beyond one year. Extending the period to complete the sale does not interfere with assets classified as held for sale if the delay was caused by events or circumstances that are beyond the control of the Bank, and if there is sufficient evidence that the Bank continues to carry out a plan to sell the asset.

Assets held for sale are measured at the lower of their carrying amount and fair value, less costs to sell. If the fair value, less costs to sell, of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the statement of profit or loss and other comprehensive income as loss from assets held for sale. Any subsequent increase in an asset's fair value, less costs to sell, is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past events, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement and other benefit obligations

The Bank has pension arrangements to the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments, with such expense charged in the period the related salaries are earned. Also, the Bank has voluntary contribution pension arrangements with a non-government pension fund, which requires current contributions by the employer calculated as a percentage of employees' payments to this pension fund, with such expense charged in the reporting period the related salaries are earned. The Bank has no additional post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital and other reserves

Ordinary and preference shares are carried in equity.

Acquired title of ownership to shares of the Bank's own issue is deducted directly from equity. A gain or loss arising from purchase, sale, issue or cancellation of the Bank's treasury shares is not included in profit or loss.

The surplus of consideration received over the nominal value of shares issued is reflected as additional paid-in capital.

Other reserves included in equity (other comprehensive income) in the statement of financial position of the Bank comprise a revaluation reserve for investments available for sale and a property and equipment revaluation reserve, including a revaluation reserve of land and buildings.

Profit or loss arising from transactions with shareholders recognized in equity as "Result from transactions with shareholders".

The Bank creates a reserve fund to cover unforeseen losses on all items of assets and off-balance liabilities. The amount of charges to the reserve fund should be not less than 5 percent of the Bank's profit until it reaches 25 percent of the Bank's regulatory capital.

If, as a result of the Bank's activities, the amount of its regulatory capital decreases to the amount that is lower than its share capital, then annual charges to the reserve fund should be not less than 10 percent of the Bank's net profit until it reaches 35 percent of the Bank's share capital.

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Segment reporting

The Bank's segment reporting is based on the following operating segments: individuals (retail banking), legal entities (corporate banking), clients of small and medium-sized enterprises, financial institutions, asset management, and other.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank, and the revenue can be reliably measured.

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Bank considers all paid and/or received fees and duties and transaction costs that form an integral part of income/expense on the financial instrument, in particular:

- a) financial instrument origination fees received/paid by the Bank and related to origination or acquisition of such a financial instrument;
- b) fees received/paid by the Bank on lending arrangements in the course of loan origination or acquisition as consideration for participation in the financial instrument's acquisition if it is probable that a loan commitment will lead to a specific lending arrangement;
- c) fees received/paid by the Bank when issuing debt securities that are accounted for at amortized cost.

Revenue on debt financial instruments is carried using the effective interest rate method, except for financial assets at fair value through profit or loss.

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

Interest received from the assets measured at fair value is classified as interest income.

Fee and commission income and expense (hereinafter, "fees") are income and expense on the services rendered/received the amount of which is calculated pro rata to the amount of an asset or liability or is fixed.

Recognition of fee and commission income and expense – loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement or loan tranche, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement or loan tranche, the loan commitment fees are recognized in the statement of profit or loss and other comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan or loan tranche, the loan commitment fee is recognized in the statement of profit or loss and other comprehensive income on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Other revenue is recognized in the statement of profit or loss and other comprehensive income in the period the relevant transaction is completed.

Application of new and revised International Financial Reporting Standards ("IFRS")

Adoption of new and revised IFRS

In the first quarter of 2017 no significant changes in the new standards and interpretations have been issued but not yet in force at the date of publication of this financial statements.

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5. Significant accounting judgments and estimates

The preparation of financial statements in compliance with IFRS requires that Bank's management make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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

Key estimates in applying accounting policies

Fair value of financial instruments

Financial instruments available for sale and derivative financial instruments are stated at fair value.

The Bank considers that the accounting estimates and assumptions related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) they are highly susceptible to change from period to period because they require that management make assumptions about interest rates, volatility, exchange rates, credit rating of a counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognition of a change in valuations would have on the assets reported in the statement of financial position as well as its income/(expense) could be material.

Had management used different assumptions regarding interest rates, volatility, exchange rates, credit rating of a counterparty, offer date and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted in a material impact on the Bank's net profit reported in the financial statements.

Allowance for impairment losses on loans and receivables

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 into consideration when estimating impairment of loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized in future reporting periods. The estimation of such a probability is based on management's forecasts regarding future taxable profit and is complemented by the Bank's management judgments.

Fair value of buildings and land plots

As discussed in Note 4, buildings and land plots are carried at revalued amount, less any subsequent accumulated depreciation and impairment losses. The method used to estimate fair value is the market approach. The market approach is based on an analysis of the results of comparable sales of similar buildings and land plots. The estimation of the fair value of buildings requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors. Management engages external independent appraisers to estimate the fair value of property. Note 13 describes key assumptions used in estimating the fair value of buildings and land plots.

Valuation of assets held for sale

As discussed in Note 4, assets held for sale are measured at a lower of their carrying amount and fair value, less costs to sell. The method used to estimate fair value is the market approach. The market approach is based on an analysis of the

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results of comparable sales of similar items. The estimation of the fair value of items requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors. Management engages external independent appraisers to estimate the fair value of such property.

6. Segment information

For management purposes, the Bank has defined five operating segments based on its products and services, which are as follows:

Legal entities (corporate banking)	Mainly granting purpose loans, servicing deposits and current accounts for corporate and institutional customers
Clients of small and medium-sized enterprises (SMEs)	Mainly granting purpose loans, servicing deposits and current accounts for clients which business satisfies certain criteria and limits
Individuals (retail banking)	Mainly servicing individual customers' deposits and granting consumer loans, overdrafts, handling credit cards and funds transfer facilities
Financial institutions	Mainly placing funds with and attracting funds from other financial institutions
Asset management and other	Finance and other central functions

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance measurement. Segment performance, as explained in the table below, is measured differently from profit or loss in the financial statements. Income taxes are managed on a central basis and are not allocated to operating segments.

The segment information below is presented on the basis used by the Bank's chief operating decision maker to evaluate performance, in accordance with IFRS 8 *Operating Segments*. Management reviews discrete financial information for each of its segments, including estimates of operating results, assets, and liabilities. The segments are managed primarily on the basis of their performance, without analyzing intersegment funding and income and expense arising between them.

During the first quarter of 2017, the Bank received revenue from the loan transactions with a single client in the amount of UAH 205,207 thousand. During the first quarter of 2016, the Bank received revenue from the loan transactions with a single client in the amount of UAH 189,127 thousand.

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The following tables summarize income and profit and certain other assets and liabilities information regarding the Bank's operating segments.

31 March 2017	Legal entities (corporate banking)	SMEs	Individuals (retail banking)	Financial institutions	Asset management and other	Total
Income						
Interest income	728,094	37,711	53,694	31,348	625,821	1,476,668
Fee and commission income	43,600	20,704	74,770	3,272	3,590	145,936
Change in allowance for impairment of loans	-	-	-	-	-	-
Net gains on investments available for sale	-	-	-	-	8,325	8,325
Net gains from trading securities	-	-	-	-	4,774	4,774
Net gains on foreign exchange operations and banks precious metals	-	-	-	-	39,434	39,434
Result on operations with derivative financial instruments	-	-	-	-	8,729	8,729
Net gains on investment property	-	-	-	-	2,386	2,386
Other income	6,550	1,472	5,618	1	43,684	57,325
Total incomes	778,244	59,887	134,082	34,621	736,743	1,743,577
Expense						
Interest expense	(640,580)	(41,226)	(348,737)	(17,962)	-	(1,048,505)
Change in allowance for impairment of loans	(186,622)	36,568	15,409	(1,470)	-	(136,115)
Fee and commission expense	(1,971)	-	(22,628)	(6,652)	(1,460)	(32,711)
Losses on initial recognition of financial assets	-	-	(2,864)	-	-	(2,864)
Staff costs	(38,247)	(22,086)	(91,468)	(2,973)	(4,862)	(159,636)
Depreciation and amortization	(7,083)	(3,639)	(24,732)	(675)	(548)	(36,677)
Change in allowance for impairment of assets and other provisions	(100,992)	(481)	(1,408)	(63)	(73)	(103,017)
Other operating expense	(63,525)	(10,321)	(105,775)	(1,735)	(4,282)	(185,638)
Net losses from trading securities	-	-	-	-	-	-
Total expenses	(1,039,020)	(41,185)	(582,203)	(31,530)	(11,225)	(1,705,163)
Segment results	(260,776)	18,702	(448,121)	3,091	725,518	38,414
					(16,940)	(16,940)
Income tax						(16,940)
Net profit						21,474
Segment assets	20,289,364	1,902,113	5,196,496	7,715,896	28,628,408	63,732,277
Segment liabilities	(39,720,506)	(2,510,782)	(14,879,419)	(1,028,256)	(548,536)	(58,687,499)
Other segment information						
Capital expenditures	2,653	1,592	10,574	272	179	15,270

(in Hryvnias and in thousands, unless otherwise indicated)

31 March 2016/ 31 December 2016	Legal entities (corporate banking)	SMEs	Individuals (retail banking)	Financial institutions	Asset management and other	Total
Income						
Interest income	550,046	19,132	62,108	15,991	619,418	1,266,695
Fee and commission income	21,135	11,561	44,056	5,859	4,081	86,692
Change in allowance for impairment of loans	588,792	7,106	(3,970)	(1,820)	–	590,108
Gains on initial recognition of Due to the National Bank of Ukraine	–	–	–	–	4,024	4,024
Net gains on investments available for sale	–	–	2,572	–	97,368	99,940
Result on operations with derivative financial instruments	–	–	–	–	158,440	158,440
Net profit on investment property	–	–	–	–	2,122	2,122
Other income	11,725	278	7,794	–	9,001	28,798
Total incomes	1,171,698	38,077	112,560	20,030	894,454	2,236,819
Expense						
Interest expense	(544,341)	(30,622)	(365,090)	(167,612)	–	(1,107,665)
Fee and commission expense	(2)	–	(14,084)	(7,804)	(1)	(21,891)
Net (losses) on foreign exchange operations and banks precious metals	(796,245)	–	–	–	–	(796,245)
Staff costs	(21,018)	(12,967)	(67,948)	(3,169)	(14,937)	(120,039)
Depreciation and amortization	(2,014)	(1,506)	(10,632)	(300)	(4,792)	(19,244)
Change in allowance for impairment of assets and other provisions	2,408	(20)	79	(1,034)	(9,563)	(8,130)
Other operating expense	(29,516)	(3,874)	(65,509)	(1,429)	(27,874)	(128,202)
Total expenses	(1,390,728)	(48,989)	(523,184)	(181,348)	(57,167)	(2,201,416)
Segment results	(219,030)	(10,912)	(410,624)	(161,318)	837,287	35,403
Income tax benefit					(6,478)	(6,478)
Net profit					830,809	28,925
Segment assets	19,722,849	1,497,937	4,521,398	6,671,904	21,491,845	53,905,933
Segment liabilities	(30,582,538)	(2,309,978)	(13,986,339)	(1,125,117)	(604,055)	(48,608,027)
Other segment information						
Capital expenditures	89,053	42,197	213,452	9,590	6,302	360,594

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 March 2017	31 December 2016
Current accounts with the National Bank of Ukraine	2,501,695	1,178,348
Cash on hand	981,301	991,244
Current accounts with other credit institutions	82,636	312,540
Term deposits with credit institutions up to 90 days	–	–
Cash and cash equivalents	3,565,632	2,482,132

The current account with the National Bank of Ukraine represents the amounts deposited with the National Bank of Ukraine for daily settlements and other operations. There are no restrictions on access to the funds, placed in current accounts with the National Bank of Ukraine.

As at 31 March 2017 and 31 December 2016, the Bank complied with the requirements of the National Bank of Ukraine regarding obligatory reserve amounts.

The amount of the obligatory reserve should be maintained on the correspondent accounts with the National Bank of Ukraine as of 31 March 2017 was UAH 953,665 thousand (2016: UAH 925,483 thousand).

*(in Hryvnias and in thousands, unless otherwise indicated)***8. Due from credit institutions**

Due from credit institutions comprise:

	31 March 2017	31 December 2016
Current accounts with other credit institutions	6,147,684	5,176,174
Reverse repurchase agreements	753,754	753,249
Term deposits with maturities over 90 days	705,501	543,710
Other amounts due from credit institutions	692,773	807,369
	8,299,712	7,280,502
Less: allowance for impairment	(760,269)	(758,575)
Due from credit institutions	7,539,443	6,521,927

As at 31 March 2017, the overdue due from credit institutions equals in the amount of UAH 735,460 thousand (2016: UAH 735,189 thousand).

As at 31 March 2017, due from credit institutions in the amount of UAH 6,622,763 thousand (or 79.13% of the total amount of due from credit institution) was placed with three bank, which is a significant concentration (2016: UAH 3,971,709 thousand with one banks, which was 54.55% of the total amount of due from credit institution).

As at 31 March 2017, reverse repurchase agreements were pledged as collateral of USBs with fair value equals in the amount of UAH 727,049 thousand (2016: UAH 846,803 thousand).

Other amounts due from credit institutions include guarantee deposits placed mainly in respect of customer transactions, such as letters of credit, guarantees, discharge of obligations and transactions with travel checks and cards.

Movements in allowance for impairment of due from credit institutions were as follows:

	3 months ended 31.03.2017	3 months ended 31.03.2016
1 January	758,575	744,441
Charge /(reversal)	1,470	1,582
Amounts written off	-	-
Currency differences	224	(142)
31 March	760,269	745,881

9. Derivative financial instruments

The Bank has loans due from and deposits due to the same banks that are denominated in different currencies for the same period with the same or similar amounts. Cash flows under these instruments are similar to cash flows under foreign exchange swaps. The Bank enters into these instruments for risk hedging purposes; however, these instruments do not qualify for hedge accounting. Note 5 describes critical accounting judgments made by management in application of the Bank's accounting policies in respect of these instruments.

The Bank enters into currency exchange operations whereby it is obliged to supply one currency in exchange for another under pre-determined exchange rates. Such transactions are entered into with Ukrainian and international banks. Delivery under such contracts is usually within one month.

Notional amounts in the tables below represent the accounts receivable and payable:

	31 March 2017				31 December 2016			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts								
Swaps/forwards	216,257	(219,653)	474	(3,870)	579,885	(571,383)	9,012	(510)
Spots	2,264,099	(2,264,218)	3,492	(3,611)	1,711,273	(1,726,655)	408	(15,790)
Total derivative assets/ (liabilities)			3,966	(7,481)			9,420	(16,300)

*(in Hryvnias and in thousands, unless otherwise indicated)***10. Loans to customers**

Loans to customers comprise:

	31 March 2017	31 December 2016
Legal entities	22,132,259	21,548,018
SMEs	1,277,925	1,137,956
Individuals	5,463,286	5,400,467
Gross loans to customers	28,873,470	28,086,441
Less: allowance for impairment	(7,827,737)	(7,734,857)
Loans to customers	21,045,733	20,351,584

As at 31 March 2017, the total amount of restructured loans that would otherwise be overdue amounted to UAH 9,222,388 thousand (2016: UAH 10,382,513 thousand), including restructuring loans to two strategies state entities according to the laws of Ukraine in amount of UAH 8,081,290 thousand (2016: UAH 9,330,875 thousand).

During the first quarter of 2017 loans to customers in the amount of UAH 28,606 thousand were repaid with assets held for sale (2016: UAH 239,818 thousand).

The loans granted to clients who are registered in the territories of Luhansk and Donetsk regions, not controlled by the Ukrainian authorities, and in the temporarily occupied territory of AR of Crimea include:

	31 March 2017	31 December 2016
The loans granted to clients that are registered in the Luhansk and Donetsk regions not controlled by Ukrainian authorities, and in the temporarily occupied territory of AR of Crimea	995,771	1,002,782
Allowance for impairment of loans to customers that are registered in the Luhansk and Donetsk regions not controlled by Ukrainian authorities, and in the temporarily occupied territory of AR of Crimea	(995,771)	(1,002,782)
Total loans granted to clients who are registered in the Luhansk and Donetsk regions not controlled by Ukrainian authorities and in the temporarily occupied territory of AR of Crimea	-	-

Analysis of the credit quality of loans to customers is disclosed in Note 30.

Allowance for impairment of loans to customers

Reconciliation of the allowance for impairment of loans to customers by categories is as follows:

	Legal entities	SMEs	Individuals	Total
As at 1 January 2017	3,314,384	203,304	4,217,169	7,734,857
(Reversal)/charge	186,622	(36,568)	(15,409)	134,645
Amounts written off	(6,361)	-	(417)	(6,778)
Translation differences	(7,848)	(19,994)	(7,145)	(34,987)
As at 31 March 2017	3,486,797	146,742	4,194,198	7,827,737
Total impaired loans, before allowance for impairment	3,571,813	165,898	4,263,171	8,000,882

	Legal entities	SMEs	Individuals	Total (reclassified)
As at 1 January 2016	3,845,062	165,532	3,965,981	7,976,575
(Reversal)/charge	(593,908)	(1,062)	3,280	(591,690)
Amounts written off	(26,478)	-	-	(26,478)
Translation differences	41,294	7,575	310,761	359,630
As at 31 March 2016	3,265,970	172,045	4,280,022	7,718,037
Total impaired loans, before allowance for impairment	3,860,637	206,101	4,284,443	8,351,181

(in Hryvnias and in thousands, unless otherwise indicated)

Impaired loans

For the first quarter of 2017 ended 31 March 2017, interest income accrued on the loans in respect of which impairment allowances have been recognized amounted to UAH 63,209 thousand (2016: UAH 203,279 thousand).

Collateral

The following table summarizes total loan portfolio by types of collateral:

Type of collateral	31 March 2017				31 December 2016			
	Loans to legal entities	SMEs	Loans to individuals	Total	Loans to legal entities	SMEs	Loans to individuals	Total
Impaired loans								
Deposits								
Real estate	–	–	–	–	–	–	33	33
Other assets	1,481,202	38,577	501,095	2,020,874	1,517,751	48,170	790,365	2,356,286
Unsecured	710,266	14,542	104,308	829,116	706,567	17,956	104,537	829,060
Total impaired loans	1,380,345	112,779	3,657,767	5,150,891	1,379,424	121,598	3,398,119	4,899,141
	3,571,813	165,898	4,263,170	8,000,881	3,603,742	187,724	4,293,054	8,084,520
Loans without specifically identified impairment								
Deposits	62,533	–	–	62,533	72,792	44,361	–	117,153
Real estate	7,715,277	580,993	663,687	8,959,957	6,096,844	515,732	755,041	7,367,617
Other assets	10,474,627	443,849	91,123	11,009,599	11,536,221	355,550	92,687	11,984,458
Unsecured	308,009	87,185	445,306	840,500	238,419	34,589	259,685	532,693
Total loans without specifically identified impairment	18,560,446	1,112,027	1,200,116	20,872,589	17,944,276	950,232	1,107,413	20,001,921
Total	22,132,259	1,277,925	5,463,286	28,873,470	21,548,018	1,137,956	5,400,467	28,086,441

The above amounts represent the carrying value of the loans, before allowance for impairment losses, and do not represent the fair value of collateral. The Bank assesses the fair value of collateral when the loan is extended, when collateral under the loan agreement is changed, when the collateral is foreclosed in the event the borrower is unable to repay the loan, and in the cases and within the periods envisaged by the laws of Ukraine.

As at 31 March 2017, other assets include movable property, goods in turnover, etc.

The following table presents the structure of loans to customers by types of clients and currency debt:

Types of clients	31 March 2017				31 December 2016			
	In foreign currency	In national currency	Total	Impaired	In foreign currency	In national currency	Total	Impaired
States entities	3,574,646	5,778,303	9,352,949	–	2,862,261	8,077,937	10,940,198	–
Corporates clients	4,631,821	8,151,426	12,783,247	3,571,813	2,791,957	7,815,863	10,607,820	3,603,742
Micro	127,347	233,808	361,155	70,737	109,286	224,943	334,229	93,225
SME	526,617	386,216	912,833	95,161	504,418	299,309	803,727	94,499
Individuals	3,794,757	1,668,529	5,463,286	4,263,171	3,828,976	1,571,491	5,400,467	4,293,054
Total	12,655,188	16,218,282	28,873,470	8,000,882	10,096,898	17,989,543	28,086,441	8,084,520

The following table presents the structure of loans in terms of customer segments and maturities:

Types of clients	31 March 2017			31 December 2016		
	Within one year	More than one year	Total	Within one year	More than one year	Total
States entities	7,828,273	1,524,676	9,352,949	9,391,895	1,548,303	10,940,198
Corporates clients	5,725,705	7,057,542	12,783,247	5,214,988	5,392,832	10,607,820
Micro	54,821	306,334	361,155	49,534	284,695	334,229
SME	164,544	748,289	912,833	152,309	651,418	803,727
Individuals	1,865,885	3,597,401	5,463,286	1,759,528	3,640,939	5,400,467
Total	15,639,228	13,234,242	28,873,470	16,568,254	11,518,187	28,086,441

(in Hryvnias and in thousands, unless otherwise indicated)

As at 31 March 2017, the Bank had a concentration of loans in the amount of UAH 11,570,218 thousand due from ten biggest borrowers/groups of related counterparties of the Bank (40.1% of total loan portfolio) (2016: UAH 12,972,569 thousand or 46.2%).

Loans are granted mainly to the customers operating in Ukraine in the following industries:

	31 March 2017	31 December 2016
Individuals	5,463,286	5,400,467
Manufacturing	8,386,846	6,330,079
Trade	3,891,208	3,180,275
Gas transportation	3,545,783	5,863,383
Agriculture and food processing	2,670,877	2,629,318
Real estate	1,702,479	1,713,968
Services	1,393,716	1,267,792
Construction	683,956	338,957
Transport	670,292	871,825
Metallurgy	348,449	363,829
Financing services	84,342	91,672
Other	32,236	34,876
Total	28,873,470	28,086,441

11. Trading securities

Trading securities comprise:

	31 March 2017	31 December 2016
Ukraine state bonds ("USBs")	372,958	386,454
Trading securities	372,958	386,454

12. Investments available for sale

Investments available for sale comprise:

	31 March 2017	31 December 2016
Ukraine state bonds ("USBs")	19,271,818	18,273,712
Deposit certificates issued by the National Bank of Ukraine	7,510,587	–
State mortgage institution	738,627	905,850
Corporate bonds	603,181	805,879
Corporate shares	11,316	11,316
Investments available for sale	28,135,529	19,996,757

As at 31 March 2017, total accumulated impairment loss recognized in respect of investments amounted to UAH 354,505 thousand (2016: UAH 353,900 thousand) (Note 26). The change in the amount of accumulated impairment losses was mainly due to impairment of corporate bonds.

As at 31 March 2017, corporate bonds with the fair value of UAH 559,417 thousand (2016: UAH 703,938 thousand) were used as a collateral of long-term borrowings from the National Bank of Ukraine (Note 20).

As at 31 March 2017, USBs with the fair value of UAH 284,480 thousand (2016: UAH 291,374 thousand) were used as a collateral to secure a long-term borrowing from one credit institution (Note 21).

*(in Hryvnias and in thousands, unless otherwise indicated)***13. Investments held to maturity**

	<i>Currency</i>	<i>Maturity</i>	<i>Interest rate, %</i>	<i>31 March 2017</i>	<i>31 December 2016</i>
Deposit certificates issued by the National Bank of Ukraine	UAH	4 January 2017	12.00	–	1,000,657
				–	1,000,657

14. Investment property

Movements of investment property were as follows:

	<i>31 March 2017</i>	<i>31 December 2016</i>
1 January	50,814	47,528
Transfer (to)/from property and equipment	(1,351)	2,679
Fair value adjustment	–	607
31 March	49,463	50,814

In net gain from investment property includes rental income amounting to UAH 2,386 thousand for the first quarter of 2017 (2016: UAH : 2,122 thousand).

As at 31 March 2017, investment properties with the carrying values of UAH 20,537 thousand (2016: UAH 22,939 thousand) were used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 20).

15. Property and equipment and intangible assets

Movements in property and equipment and intangible assets were as follows:

	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress and items not put into operation</i>	<i>Intangible assets</i>	<i>Total</i>
Cost or revalued amount							
As at 1 January 2017	1,022,396	506,518	21,289	34,897	45,042	278,727	1,908,869
Additions	1,702	7,683	540	–	13,020	17,644	40,589
Disposals	–	(115)	(876)	(803)	–	–	(1,794)
Transfers	–	1,185	249	–	(1,434)	–	–
Revaluation	–	–	–	–	–	–	–
Reclassification from investment property	1,346	–	–	–	–	–	1,346
As at 31 March 2017	1,025,444	515,271	21,202	34,094	56,628	296,371	1,949,010
Accumulated depreciation							
As at 1 January 2017	–	280,418	14,825	24,441	–	79,242	398,926
Depreciation charges	6,105	17,192	1,224	1,546	–	10,610	36,677
Disposals	–	(115)	(844)	(725)	–	–	(1,684)
Revaluation	–	–	–	–	–	–	–
Reclassification from investment property	(5)	–	–	–	–	–	(5)
As at 31 March 2017	6,100	297,495	15,205	25,262	–	89,852	433,914
Net book value							
As at 1 January 2017	1,022,396	226,100	6,464	10,456	45,042	199,485	1,509,943
As at 31 March 2017	1,019,344	217,776	5,997	8,832	56,628	206,519	1,515,096

(in Hryvnias and in thousands, unless otherwise indicated)

	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress and items not put into operation</i>	<i>Intangible assets</i>	<i>Total</i>
Cost or revalued amount							
As at 1 January 2016	912,117	295,394	17,061	32,345	51,876	162,648	1,471,441
Additions	-	174,645	26	4,123	65,721	116,079	360,594
Disposals	-	(8,351)	(2,910)	(2,146)	-	-	(13,407)
Transfers	20,038	44,830	7,112	575	(72,555)	-	-
Revaluation	93,076	-	-	-	-	-	93,076
Reclassification from investment property	(2,835)	-	-	-	-	-	(2,835)
As at 31 December 2016	1,022,396	506,518	21,289	34,897	45,042	278,727	1,908,869
Accumulated depreciation							
As at 1 January 2016	-	238,258	15,860	20,323	-	51,505	325,946
Depreciation charges	21,454	50,450	1,648	5,626	-	27,737	106,915
Disposals	-	(8,290)	(2,683)	(1,508)	-	-	(12,481)
Revaluation	(21,298)	-	-	-	-	-	(21,298)
Reclassification from investment property	(156)	-	-	-	-	-	(156)
As at 31 December 2016	-	280,418	14,825	24,441	-	79,242	398,926
Net book value							
As at 1 January 2016	912,117	57,136	1,201	12,022	51,876	111,143	1,145,495
As at 31 December 2016	1,022,396	226,100	6,464	10,456	45,042	199,485	1,509,943

As at 31 December 2016, the valuation of the fair value of buildings and land plots was performed by an independent appraiser. The method applied to estimate the fair value of buildings includes comparison to recent sales of similar items. Key assumptions relate to the condition, quality and location of the buildings used as comparatives.

If the valuation of land and buildings was performed using a model of the original value, the carrying value of land and buildings as at 31 March 2017 amounted to UAH 1,045,285 thousand (2016: UAH 850,288 thousand).

As at 31 March 2017, property and equipment with the carrying amount of UAH 272,780 thousand (2016: UAH 272,393 thousand) were used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 20).

16. Assets held for sale

As at 31 March 2017, assets held for sale with the carrying amounts of UAH 1,103,270 thousand (2016: UAH 1,129,309 thousand) were received as repayment of debts from the Bank's customers.

	<i>Land</i>	<i>Non- residential property</i>	<i>Residential property</i>	<i>Ownership rights</i>	<i>Movables</i>	<i>Total</i>
Carrying value						
On 1 January 2017	366,527	594,657	130,529	36,706	890	1,129,309
Additions	2,459	24,321	1,990	-	-	28,770
Sale	(54,809)	-	-	-	-	(54,809)
On 31 March 2017	314,177	618,978	132,519	36,706	890	1,103,270

	<i>Land</i>	<i>Non- residential property</i>	<i>Residential property</i>	<i>Ownership rights</i>	<i>Movables</i>	<i>Total</i>
Carrying value						
On 1 January 2016	397,984	414,223	121,252	36,706	-	970,165
Additions	35,675	194,490	9,277	-	890	240,332
Sale	(67,132)	(14,056)	-	-	-	(81,188)
On 31 March 2016	366,527	594,657	130,529	36,706	890	1,129,309

As at 31 March 2017, assets held for sale with the fairing amount of UAH 59,683 thousand (2016: UAH 59,683 thousand) were used as collateral to secure borrowings received from the National Bank of Ukraine (Note 20).

*(in Hryvnias and in thousands, unless otherwise indicated)***17. Taxation**

Income tax expense/(benefit) comprise:

	3 months ended 31.03.2017	3 months ended 31.03.2016
Changes in deferred taxes – origination and reversal of temporary differences	16,940	6,478
Less: deferred tax recognized in other comprehensive income	–	–
Income tax (benefit)/ expense	16,940	6,478

Reconciliation of the income tax (benefit)/ expense based on the current tax rates and actual income tax (benefit)/ expense is as follows:

	3 months ended 31.03.2017	3 months ended 31.03.2016
Profit/(loss) before income tax	38,414	35,403
Statutory tax rate	18%	18%
Theoretical income tax (benefit)/ expense at the statutory rate	6,915	6,373
Non-deductible expense for taxation (which is adjusted)	24,135	7,592
Adjustments of the tax base due to reassessment of temporary differences and changes in laws	2,217	(7,602)
Changes in unrecognized deferred tax assets	(16,327)	115
Income tax (benefit)/ expense	16,940	6,478

As at 31 March 2017 and 31 March 2016, deferred tax assets and liabilities and their movements for the respective periods were as follows:

	Origination and reversal of temporary differences		3 months ended 31.03.2017	Origination and reversal of temporary differences		3 months ended 31.03.2016
	In profit or loss	In equity		In profit or loss	In equity	
Tax effect of non-taxable temporary differences						
Derivative financial instruments	–	–	–	–	–	–
Accruals and provisions	13,583	–	(40,748)	13,582	–	(95,080)
Property and equipment and intangible assets	(3,468)	–	22,822	6,626	–	(7,060)
Reserves of vacations bonus	(225)	–	950	(337)	–	2,704
Tax losses carried forward	(43,157)	–	657,523	(26,234)	–	812,646
Deferred tax assets/(liabilities), gross	(33,267)	–	640,547	(6,363)	–	713,210
Unrecognized deferred tax asset	16,327	–	(574,926)	(115)	–	(640,329)
Deferred tax assets/(liabilities)	(16,940)	–	65,621	(6,478)	–	72,881
Tax effect of taxable temporary differences						
Valuation of investments available for sale	–	–	–	–	–	–
Deferred tax (liabilities)/assets	–	–	–	–	–	–
Deferred tax assets/(liabilities), net	(16,940)	–	65,621	(6,478)	–	72,881

Due to the different periods of preparation and provision of the financial statements and the tax returns for income tax, there can be insignificant differences that will be reflected in accounting for the current period.

In compliance with applicable tax laws of Ukraine, tax accounting is based solely on the rules of International Financial Reporting Standards and is in accordance with the Tax Code of Ukraine. The object of income tax is a financial result before tax, as defined in the financial statements in accordance with International Financial Reporting Standards, adjusted for differences by the Tax Code of Ukraine. Thus, tax accounting on the basis of accounting with further tax adjustments for timely and accurate tax reporting.

(in Hryvnias and in thousands, unless otherwise indicated)

18. Allowance for impairment of assets and other provisions

	<i>Other assets</i>	<i>Guarantees and commitments</i>	<i>Total</i>
As at 31 December 2015	510,231	2,461	512,692
Charge/(reversal)	10,360	(2,230)	8,130
Translation differences	2,439	–	2,439
As at 31 March 2016	523,030	231	523,261
As at 31 December 2016	426,921	60,504	487,425
Charge	2,115	100,902	103,017
Translation differences	445	1,325	1,770
As at 31 March 2017	429,481	162,731	592,212

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded as liabilities.

19. Other assets and liabilities

Other assets comprise:

	<i>31 March 2017</i>	<i>31 December 2016</i>
Receivables for securities	283,041	283,041
Prepayments	128,631	153,301
Receivable for property rights	100,001	100,001
Cash and precious metals, which are located in the temporarily occupied territory of the Autonomous Republic of Crimea and not controlled by the Ukrainian authorities of the Luhansk and Donetsk regions	49,572	48,885
Other receivables for operations with banks	45,801	52,904
Receivables for operations with credit cards	43,418	51,508
Clearing payments for payment cards	42,581	48,308
Other income accrued	35,208	31,183
Inventories	8,207	11,886
Receivables from employees	2,207	2,045
Taxes recoverable, other than income tax	190	1,315
Other	7,736	7,886
	746,593	792,263
Less: allowance for impairment of other assets (Note 18)	(429,481)	(426,921)
Other assets	317,112	365,342

Other liabilities comprise:

	<i>31 March 2017</i>	<i>31 December 2016</i>
Other accounts payable	103,835	131,584
Accruals for unused vacations	58,723	50,727
Payables on operations with clients on the purchase and sale of foreign currency, bank and precious metals	33,954	75,458
Payables to Individual Deposits Guarantee Fund	25,680	23,579
Payables on operations with agents and partners	25,576	16,978
Payables on operations with clients	13,821	291,560
Payables on operations with plastic cards	7,433	26,274
Payables on rental properties	5,642	9,300
Payables to plastic cards transactions processing center	18	5,926
Accounts payable for payments to employees	2	6
Other	48,419	38,168
Other liabilities	323,103	669,560

*(in Hryvnias and in thousands, unless otherwise indicated)***20. Due to the National Bank of Ukraine**

Borrowings from the National Bank of Ukraine comprise:

	<i>Maturity</i>	<i>31 March 2017</i>	<i>31 December 2016</i>
Long-term refinancing borrowings from the National Bank of Ukraine	31 August 2018	201,647	199,132
	30 April 2019	198,965	196,602
	28 December 2017	134,796	157,661
	28 February 2017	–	21,602
Total long-term borrowings from the National Bank of Ukraine		535,408	574,997

As at 31 March 2017, a discount rate of the National Bank of Ukraine was 7.0% (2016: 7.0%).

Interest rates on borrowings from the National Bank of Ukraine were set at the discount rate of the National Bank of Ukraine on the date of their receipt plus 0.5% and may be changed only in case of decrease of the discount rate of the NBU.

As at 31 March 2017 the discount rate of the National Bank of Ukraine amounted to 14.0% (2016: 14.0%).

As at 31 March 2017 and 2016, the following assets were pledged as collateral to secure borrowings from the National Bank of Ukraine:

	<i>Notes</i>	<i>31 March 2017</i>	<i>31 December 2016</i>
Corporate bonds	12	559,417	703,938
Buildings and land plots – property and equipment	15	272,780	272,393
Buildings – investment property	14	20,537	22,939
Assets held for sale	16	59,683	59,683

21. Due to credit institutions

Due to credit institutions comprises:

	<i>31 March 2017</i>	<i>31 December 2016</i>
Current accounts	762,448	753,262
Term deposits and loans	226,453	301,688
Other due to credit institutions	30,762	50,750
Due to credit institutions	1,019,663	1,105,700

As at 31 March 2017, due to credit institutions include balances in the amount of UAH 405,234 thousand (39.74%) that were placed by three banks (2016: balances in the amount of UAH 335,734 thousand (30.36%) that were placed by two banks).

As at 31 March 2017, long-term borrowing received from one credit institution was secured by the USBs with the fair value of UAH 225,914 thousand (2016: UAH 291,374 thousand) (Note 12).

As at 31 March 2017, due to credit institutions include balances in the amount of UAH 225,914 thousand (2016: UAH 220,114 thousand) that were obtained from a credit institution that failed to comply with certain requirements and covenants. As at the date of the annual financial statements the Bank did not receive any requirements for early repayment of these funds.

*(in Hryvnias and in thousands, unless otherwise indicated)***22. Due to customers**

Due to customers comprise:

	31 March 2017	31 December 2016
Current accounts		
- Legal entities	22,924,082	18,580,599
- Individuals	3,444,205	3,347,815
- Budget organizations	111,032	213,287
	26,479,319	22,141,701
Time deposits		
- Legal entities	15,176,852	13,829,027
- Individuals	11,253,283	10,210,238
- Budget organizations	3,729,659	–
	30,159,794	24,039,265
Due to customers	56,639,113	46,180,966

As at 31 March 2017, due to customers in the amount of UAH 22,428,158 thousand (39.6%) included due to ten biggest customers of the Bank (2016: UAH 18,060,567 thousand (39.1%)).

Due to customers by industry are summarized as follows:

	31 March 2017	31 December 2016
Individuals	14,697,488	13,558,053
Transport	13,029,742	9,306,651
Metallurgy	7,449,211	6,411,940
Services	6,326,089	2,451,225
Energy	2,555,727	2,113,495
Manufacturing	2,097,061	1,871,145
Insurance	1,876,676	1,756,061
Financing services	1,195,066	1,509,595
Trade	1,395,029	1,216,668
Agriculture and food industry	698,384	802,750
Construction	514,067	537,261
Other	4,804,573	4,646,122
Due to customers	56,639,113	46,180,966

As at 31 March 2017, category "Other" includes funds of non-resident legal entities in the amount UAH 4,640,396 thousand (2016: UAH 4,641,426 thousand).

As at 31 March 2017, loans to customers secured by customer funds in the amount of UAH 62,533 thousand (2016: UAH 117,186 thousand).

As at 31 March 2017, customer funds secured financial commitments and contingencies in the amount of UAH 1,104,776 thousand (2016: UAH 1,164,122 thousand).

*(in Hryvnias and in thousands, unless otherwise indicated)***23. Equity****Share capital**

As at 31 March 2017, authorized issued share capital comprised 13,836,522,922 ordinary shares and 477,078 preferred shares (2016: 13,836,522,922 ordinary shares and 477,078 preferred shares), with the nominal value of UAH 1 per share. Ordinary shares give rights to their holders to participate in the General Shareholders' Meetings, receive dividends and share value. The shareholders-owners of preferred shares have a vote right in certain cases according to the Charter and are entitled to receive annual fixed amounts of dividends, except for certain cases envisaged by the laws.

The number of issued and fully paid shares is as follows:

	<i>Number of shares, thousands of units</i>		<i>Nominal value, UAH thousands</i>		<i>Nominal value, UAH thousands</i>	<i>Total, UAH thousands</i>
	<i>Ordinary</i>	<i>Preferred</i>	<i>Ordinary</i>	<i>Preferred</i>		
At 31 December 2015	13,836,523	477	13,836,523	477	13,837,000	13,837,000
Issued and registered shares	—	—	—	—	—	—
At 31 December 2016	13,836,523	477	13,836,523	477	13,837,000	13,837,000
Issued and registered shares	—	—	—	—	—	—
At 31 March 2017	13,836,523	477	13,836,523	477	13,837,000	13,837,000

Movements in other reserves

Movements in other reserves were as follows:

	<i>Property and equipment valuation reserve</i>	<i>Revaluation reserve for investments available for sale</i>	<i>Total</i>
As at 31 December 2015	270,191	(393,041)	(122,850)
Revaluation of property	110,629	—	110,629
Income tax associated with revaluation of property and equipment	(19,913)	—	(19,913)
Gains on investments available for sale	—	625,549	625,549
As at 31 December 2016	360,907	232,508	593,415
Revaluation of property	—	—	—
Income tax associated with revaluation of property and equipment	—	—	—
(Losses) from investments available for sale	—	(274,602)	(274,602)
As at 31 March 2017	360,907	(42,094)	318,813

24. Commitments and contingencies**Legal issues**

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the amount of liabilities, arising from legal proceedings will not have a material adverse effect on the financial position or the results of future operations of the Bank.

Taxation

The Ukrainian tax system is characterized by numerous taxes and frequent changes in the legislation. Tax regulations are often unclear, open to wide interpretation and, in some instances, are controversial. Instances of inconsistent treatment between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not infrequent. Tax returns are subject to review and investigation by a number of authorities that are authorized to impose penalties and interest charges. These facts expose entities operating in Ukraine to more significant

(in Hryvnias and in thousands, unless otherwise indicated)

risks than those in the countries with more developed tax systems.

Management believes that it has complied with all existing tax legislation requirements. However, no certainty exists that the tax authorities will apply another treatment to the Bank's compliance with the effective legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements because, as at 31 March 2017, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

Commitments and contingencies

As at 31 March 2017 and 2016, contractual commitments and contingencies were as follows:

	31 March 2017	31 December 2016
Credit related commitments of the Bank		
Commitment to extend loans*	6,635,000	4,185,000
Guarantees	1,406,799	862,129
Letters of credit	563,407	655,030
Promissory note guarantees	2,096	233
Total	8,607,302	5,702,392

* As at 31 March 2017 and 31 December 2016, commitment to extend loans included revocable commitments to the Bank's strategic customers.

As at 31 March 2017, total provisions recognized in respect of the Bank's commitments amounted to UAH 162,731 thousand (2016: UAH 60,504 thousand) (Note 18).

As at 31 March 2017, commitments and contingencies were secured by cash collateral in the amount of UAH 1,104,776 thousand (2016: UAH 1,164,122 thousand).

25. Net fee and commission income

Net fee and commission income comprises:

	3 months ended 31.03.2017	3 months ended 31.03.2016
Settlements operations	106,367	67,341
Agency operations in the foreign exchange market	16,930	8,970
Guarantees and letters of credit	12,338	3,559
Securities operations	621	434
Other	9,680	6,387
Fee and commission income	145,936	86,691
Settlements operations	(29,410)	(20,320)
Guarantees and letters of credit	(3,007)	(1,426)
Agency operations in the foreign exchange market	(286)	(143)
Other	(8)	(1)
Fee and commission expense	(32,711)	(21,890)
Net fee and commission income	113,225	64,801

26. Net gains on investments available for sale

Net gains on investments available for sale that are recognized in the statement of profit or loss and other comprehensive income comprise:

	3 months ended 31.03.2017	3 months ended 31.03.2016
Net gains on the sale of investments available for sale	8,930	971
(Losses)/gains on impairment of investments available for sale	(605)	3,053
Net gains on investments available for sale	8,325	4,024

(in Hryvnias and in thousands, unless otherwise indicated)

27. Net gains on foreign exchange operations and banks precious metals

Net gains on foreign exchange operations and banks precious metals comprise:

	3 months ended 31.03.2017	3 months ended 31.03.2016
Gains/(losses) from dealing with foreign currencies and banks precious metals	12,125	(11,537)
Gains from translation differences	27,309	111,477
Net gains on foreign exchange operations and banks precious metals	39,434	99,940

28. Other income

	3 months ended 31.03.2017	3 months ended 31.03.2016
Positive result from sale of assets held for sale	41,257	–
Penalties received	4,428	6,158
Fees from insurance companies and banks	3,473	5,448
Compensation costs for utilities of premises leased	1,657	1,339
Fees for rental of deposit boxes	1,634	1,332
Repayment of purchased impaired financial assets	1,069	11,036
Revenue from acquired ownership of due to customers	696	–
Income from early repayment of customers term deposits	534	525
Recovery of previously written-off assets	469	420
Positive result from sale of property and equipment and intangible assets	398	998
Recovery of litigation expenses	322	323
Recovery of registration costs	–	61
Other	1,388	1,158
Total other income	57,325	28,798

There have been cases in Bank's operations when the accounts which are to be closed, have balances which the customer does not appeal to. The line "Revenue from acquired ownership of client funds" shows clients' funds that the Bank recognized as income in accordance with the Civil Code of Ukraine, as a result of the expiration of ownership of the balances.

*(in Hryvnias and in thousands, unless otherwise indicated)***29. Staff costs and other operating expense**

Staff costs and other operating expense comprise:

	3 months ended 31.03.2017	3 months ended 31.03.2016
Salaries and bonuses	133,536	99,931
Charges on payroll	26,063	20,056
Other staff costs	37	52
Staff costs	159,636	120,039
Reward to partners for attraction of customers	37,744	22,293
Repairs and maintenance of property and equipment	26,076	16,840
Payments to the Individual Deposit Guarantee Fund	25,680	23,679
Communications	22,118	13,385
Taxes, other than income tax	11,825	10,873
The costs of enforcement of judgments	11,779	–
Lease and maintenance of premises	7,754	9,504
Professional services	7,331	10,494
Office supplies	7,013	3,444
Charity	6,333	217
Software support	5,638	2,959
Security	4,462	3,283
Collection costs	2,859	1,951
Marketing and advertising	1,530	3,532
Business trips	919	1,177
Other	6,577	4,571
Other operating expense	185,638	128,202

30. Risk management

Risk is inherent to the banking activities and is managed through a process of ongoing identification, measurement and monitoring, with reference to risk limits and other controls. The process of risk management is essential to the Bank's performance, and each member of staff is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk and operational risks.

Risk management structure*Supervisory Board*

The Supervisory Board is ultimately responsible for final definition and approval of the risks to which the Bank is exposed in the process of its activities and also for capital requirements; however, there are specific committees and departments responsible for managing and monitoring risks.

Management Board

The Management Board is responsible for the overall risk management and for implementation of risk strategies and principles approved by the Supervisory Board. The Management Board has delegated some authority to operational risk management collegial structures of the Bank sets limits and powers of these collective structures.

Credit Council

The Credit Council bears the overall responsibility for monitoring and managing the credit and investment portfolio; implementation of the credit and other policies of the Bank's for customers, a lending organization considering other strategic and current plans of the Bank; decisions on the implementation of the Bank's active, including credit, operations of the Bank's customers within the authority; providing measures to control credit risks for transactions with a clients.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is responsible for establishing internal limits of liquidity gaps, internal limits of currency position by currencies and types of positions, decisions to optimize the currency structure of balance, limiting the amounts of the trading loss, setting limits on sensitivity to interest rate risk, acceptance solutions to optimize the structure of assets and liabilities, monitoring of standards and parameters of resource management and performance resource policy.

*(in Hryvnias and in thousands, unless otherwise indicated)**Risk Management Department*

The Risk Management Department provides the methodological support of the process of financial and operational risks; preparing proposals for determining the levels of tolerance to the Bank's financial and operational risks; provides an independent assessment of current compliance with existing policies and procedures to financial and operational risks; ensure implementation of quantitative and qualitative assessment based on predefined parameters risks faced by the Bank or which may continue to appear in his work.

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration indicates the relative sensitivity of the Bank's performance to changes affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including procedures for monitoring of the borrowers' financial position, stress-testing, and regular collateral revisions.

Derivative financial instruments

Credit risk arising from derivative financial instruments is limited to a nominal amount under the relevant contracts.

Credit-related commitments risks

The Bank makes guarantees available to its customers which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of credit. They expose the Bank to risks that are similar to risks from loans and are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivative financial instruments. The maximum exposure is shown net of allowance for impairment and net amount of derivative financial instruments.

	<i>Notes</i>	Maximum exposure, 31 March 2017	Maximum exposure, 31 December 2016
Cash and cash equivalents (other than cash on hand)	7	2,584,331	1,490,888
Due from credit institutions	8	7,539,443	6,521,927
Derivative financial assets	9	3,966	9,420
Loans to customers	10	21,045,733	20,351,584
Trading securities	11	372,958	386,454
Investments available for sale	12	28,124,213	19,985,441
Investments held to maturity	13	–	1,000,657
Other assets	19	59,580	71,137
		59,730,224	49,817,508
Commitments and contingencies	24	8,444,571	5,641,888
Total credit risk exposure		68,174,795	55,459,396

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

(in Hryvnias and in thousands, unless otherwise indicated)

For more detail on the maximum exposure to credit risk for each class of financial instrument, refer to the respective notes.

Credit quality by categories of financial assets

The credit quality of financial assets after allowances for impairment as at 31 March 2017 is as follows:

	Notes	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents	7	2,584,331	–	–	2,584,331
Due from credit institutions	8	692,875	–	6,846,568	7,539,443
Loans to customers:	10				
Legal entities		17,904,577	207,797	533,088	18,645,462
SMEs		1,112,360	7,541	11,282	1,131,183
Individuals		1,139,057	65,652	64,379	1,269,088
Trading securities	11	372,958	–	–	372,958
Investments available for sale	12	28,124,213	–	–	28,124,213
Investments held to maturity	13	–	–	–	–
Total		51,930,371	280,990	7,455,317	59,666,678

The credit quality of net financial assets, after allowances for impairment, as at 31 December 2016 is as follows:

	Notes	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents	7	1,490,888	–	–	1,490,888
Due from credit institutions	8	807,471	–	5,714,456	6,521,927
Loans to customers:	10				
Legal entities		17,487,815	104,039	641,780	18,233,634
SMEs		916,947	5,658	12,047	934,652
Individuals		1,046,339	65,283	71,676	1,183,298
Trading securities	11	386,454	–	–	386,454
Investments available for sale	12	19,996,757	–	–	19,996,757
Investments held to maturity	13	1,000,657	–	–	1,000,657
Total		43,133,328	174,980	6,439,959	49,748,267

Impaired loans include loans individually assessed for impairment and loans collectively assessed for impairment and found to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographical region and products. The rating system is supported by financial analysts of the Bank, with reference to the market information analyzed to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to various categories and are derived in accordance with the Bank's rating policies. The attributable risk ratings are assessed and updated on a regular basis.

The credit rating of Ukraine, according to the international rating agencies, as at 31 March 2017, corresponded to a speculative level of CCC (2016: CCC).

Investments available for sale, in particular Ukrainian state bonds and unrated municipal bonds, were assigned by the Bank to the category of Lower than B- in accordance with the sovereign credit rating of Ukraine.

Other balances of cash and cash equivalents, due from credit institutions and investments available for sale are classified with reference to current credit ratings assigned by international rating agencies. In the event a counterparty does not have an international rating assigned to it at the reporting date, the Bank used the ratings assigned by national rating agencies. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as speculative grade.

(in Hryvnias and in thousands, unless otherwise indicated)

The following table details the credit ratings of financial assets of the Bank:

	<i>uaAAA – A-</i>	<i>uaBBB – B-</i>	<i>Lower than B-</i>	<i>Unrated</i>	31 March 2017
Cash and cash equivalents (other than cash on hand)	–	–	2,584,331	–	2,584,331
Due from credit institutions	440,853	6,397,720	102	700,768	7,539,443
Derivative financial assets	–	715	–	3,251	3,966
Trading securities	–	–	372,958	–	372,958
Investments available for sale	–	–	28,124,213	–	28,124,213
Investments held to maturity	–	–	–	–	–

	<i>uaAAA – A-</i>	<i>uaBBB – B-</i>	<i>Lower than B-</i>	<i>Unrated</i>	31 December 2016
Cash and cash equivalents (other than cash on hand)	–	–	1,490,888	–	1,490,888
Due from credit institutions	1,053,225	4,653,806	102	814,794	6,521,927
Derivative financial assets	403	12	–	9,005	9,420
Trading securities	–	–	386,454	–	386,454
Investments available for sale	–	–	19,883,935	101,506	19,985,441
Investments held to maturity	–	–	1,000,657	–	1,000,657

Ageing of past due loans is provided below.

Ageing analysis of past due but not impaired loans as at 31 March 2017 is as follows:

	Up to 31 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Loans to customers					
Legal entities	194,483	13,314	–	–	207,797
SMEs	1,165	721	3,035	2,620	7,541
Individuals	45,021	6,477	2,128	12,026	65,652
Total	240,669	20,512	5,163	14,646	280,990

Ageing analysis of past due but not impaired loans as at 31 December 2016 is as follows:

	Up to 31 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Loans to customers					
Legal entities	102,031	2,008	–	–	104,039
SMEs	3,001	353	130	2,174	5,658
Individuals	46,069	8,193	1,527	9,494	65,283
Total	151,101	10,554	1,657	11,668	174,980

See Note 10 for more details with respect to the allowance for impairment of loans to customers.

*(in Hryvnias and in thousands, unless otherwise indicated)***Geographical concentration**

The following table summarizes geographical concentration of monetary assets and liabilities:

31 March 2017				
	Ukraine	OECD countries	CIS and other foreign banks	Total
Assets				
Cash and cash equivalents	3,565,632	–	–	3,565,632
Precious metals	13,533	–	–	13,533
Due from credit institutions	698,773	6,824,624	16,046	7,539,443
Derivative financial assets	3,966	–	–	3,966
Loans to customers	21,045,733	–	–	21,045,733
Trading securities	372,958	–	–	372,958
Investments available for sale	28,135,524	5	–	28,135,529
Investments held to maturity	–	–	–	–
Other assets	59,580	–	–	59,580
	53,895,699	6,824,629	16,046	60,736,374
Liabilities				
Due to the National Bank of Ukraine	535,408	–	–	535,408
Due to credit institutions	1,019,663	–	–	1,019,663
Derivative financial liabilities	7,481	–	–	7,481
Due to customers	56,639,113	–	–	56,639,113
Provisions for guarantees and commitments	162,731	–	–	162,731
Other liabilities	55,208	–	–	55,208
	58,419,604	–	–	58,419,604
Difference between assets and liabilities	(4,523,905)	6,824,629	16,046	2,316,770

31 December 2016				
	Ukraine	OECD countries	CIS and other foreign banks	Total
Assets				
Cash and cash equivalents	2,482,132	–	–	2,482,132
Precious metals	14,112	–	–	14,112
Due from credit institutions	839,957	5,661,925	20,045	6,521,927
Derivative financial assets	9,420	–	–	9,420
Loans to customers	20,351,584	–	–	20,351,584
Trading securities	386,454	–	–	386,454
Investments available for sale	19,996,752	5	–	19,996,757
Investments held to maturity	1,000,657	–	–	1,000,657
Other assets	71,137	–	–	71,137
	45,152,205	5,661,930	20,045	50,834,180
Liabilities				
Due to the National Bank of Ukraine	574,997	–	–	574,997
Due to credit institutions	1,105,700	–	–	1,105,700
Derivative financial liabilities	16,300	–	–	16,300
Due to customers	46,180,966	–	–	46,180,966
Provisions for guarantees and commitments	60,504	–	–	60,504
Other liabilities	393,292	–	–	393,292
	48,331,759	–	–	48,331,759
Difference between assets and liabilities	(3,179,554)	5,661,930	20,045	2,502,421

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To mitigate this risk, management uses different sources of funding in addition to the main base of deposits. Management of the Bank also performs day-to-day liquidity management activities, with due account for balances on the correspondent accounts and cash inflow/outflow projections; management of current liquidity (up to 1 month) through identification of the Bank's requirements for liquid assets and assessment of the liquidity gaps for the period; management of liquidity over 1 month through assessment of mismatch between maturities on assets and liabilities and development of remedial measures to maintain the Bank's relevant liquidity levels in the future.

*(in Hryvnias and in thousands, unless otherwise indicated)**Analysis of financial liabilities by remaining contractual maturities*

Analysis of assets and liabilities of the Bank by the estimated dates of their recovery or repayment is discussed in Note 32.

The tables below summarize the information on undiscounted cash flows of financial liabilities as at 31 March 2017 and 2016 based on the remaining time to maturity. Liabilities that are subject to repayment on demand are to be repaid on the earliest possible date. However the Bank expects that most customers will not demand repayment on the earliest possible date.

Financial liabilities as at 31 March 2017	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to the National Bank of Ukraine	55,834	197,458	363,314	–	616,606
Due to credit institutions	795,743	75,201	177,812	–	1,048,756
Gross settled derivative financial instruments:					
- amounts payable	(1,096,350)	–	–	–	(1,096,350)
- amounts receivable	1,103,830	–	–	–	1,103,830
Due to customers	44,505,098	12,602,890	745,599	2,069	57,855,656
Other liabilities	55,208	–	–	–	55,208
Total undiscounted financial liabilities	45,419,363	12,875,549	1,286,725	2,069	59,583,706

Financial liabilities as at 31 December 2016	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to the National Bank of Ukraine	56,693	166,112	450,496	–	673,301
Due to credit institutions	887,648	74,410	176,682	–	1,138,740
Gross settled derivative financial instruments:					
- amounts payable	(1,539,904)	–	–	–	(1,539,904)
- amounts receivable	1,556,204	–	–	–	1,556,204
Due to customers	38,049,633	8,400,132	615,153	2,030	47,066,948
Other liabilities	393,292	–	–	–	393,292
Total undiscounted financial liabilities	39,403,566	8,640,654	1,242,331	2,030	49,288,581

The table below shows the contractual maturity of commitments and contingencies of the Bank. Each undrawn loan commitments are included in the time period containing the earliest date when a customer may require its fulfillment. For issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be required for settlement.

	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 March 2017	3,182,271	4,686,620	693,194	45,217	8,607,302
31 December 2016	884,558	4,424,282	393,552	–	5,702,392

The Bank expects that not all of the commitments and contingencies will be drawn before expiry of the commitments.

Operating risk

Operating risk is direct or potential risk of losses for proceeds and equity due to imperfection error deficiency delay and damage caused by internal processes staff and systems or external events (e.g. fraud or natural disaster).

Operating risk management is the responsibility of the Bank's Management Board which is authorized to establish principles to ensure the methodology for effective management and monitoring of operating risks. Operating Risk Management Committee is an executive committee of the Management Board the function of which include implementing operating risk management policies improving business processes implementing internal control systems/additional controls developing measures based on reviews of operating incidents.

(in Hryvnias and in thousands, unless otherwise indicated)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges and security prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risks for non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates with all other variables remaining unchanged in the Bank's statement of profit or loss and other comprehensive income.

Sensitivity of profit or loss and other comprehensive income reflects the effect of the assumed changes in interest rates on net interest income for one year, there will be gaps between maturities of assets and liabilities to revise the interest rate that reflects maturity to review of the base rate for instruments with floating (variable) interest rate and maturity for instruments with fixed interest rate.

*Sensitivity of profit or loss and other comprehensive income
(Method breaks to maturity revaluation)*

31 March 2017						
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets	21,235,862	4,840,833	13,536,366	14,615,436	5,366,862	59,595,359
Liabilities	38,587,920	7,833,558	10,552,833	1,218,177	1,696	58,194,184
The difference between assets and liabilities	(17,352,058)	(2,992,725)	2,983,533	13,397,259	5,365,166	1,401,175
1%	(165,914)	(24,926)	11,198			(179,641)
-1%	165,914	24,926	(11,198)			179,641

31 March 2016						
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets	21,227,245	2,764,823	5,091,947	11,489,365	4,754,746	45,328,126
Liabilities	25,136,679	8,789,056	8,845,244	1,390,125	1,038	44,162,142
The difference between assets and liabilities	(3,909,434)	(6,024,233)	(3,753,297)	10,099,240	4,753,708	1,165,984
1%	(37,488)	(50,174)	(14,088)			(101,750)
-1%	37,488	50,174	14,088			101,750

(in Hryvnias and in thousands, unless otherwise indicated)

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Assets and Liabilities Management Committee sets limits on positions by currencies based on the requirements of the National Bank of Ukraine. Currency positions are monitored on a daily basis.

The major foreign currency denominated positions of assets and liabilities as at 31 March 2017 are as follows:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents and current accounts in the National Bank of Ukraine	3,215,593	187,551	124,790	37,698	3,565,632
Precious metals	–	–	–	13,533	13,533
Due from credit institutions	693,284	1,586,406	5,029,021	230,732	7,539,443
Loans to customers	12,953,587	6,283,448	1,808,698	–	21,045,733
Trading securities	–	372,958	–	–	372,958
Investments available for sale	16,733,849	11,315,556	86,124	–	28,135,529
Investments held to maturity	–	–	–	–	–
Investment property	49,463	–	–	–	49,463
Property and equipment and intangible assets	1,515,096	–	–	–	1,515,096
Assets held for sale	1,103,270	–	–	–	1,103,270
Current income tax assets	4,921	–	–	–	4,921
Deferred income tax assets	65,621	–	–	–	65,621
Other assets	284,185	30,614	2,194	119	317,112
Total assets	36,618,869	19,776,533	7,050,827	282,082	63,728,311
Liabilities					
Amounts due to National Bank of Ukraine	535,408	–	–	–	535,408
Due to credit institutions	83,572	549,314	268,233	118,544	1,019,663
Due to customers	30,674,087	19,015,645	6,830,601	118,780	56,639,113
Provisions for guarantees and commitments	2,600	–	160,131	–	162,731
Other liabilities	291,465	12,741	16,596	2,301	323,103
Total liabilities	31,587,132	19,577,700	7,275,561	239,625	58,680,018
Net long/(short) recognized position	5,031,737	198,833	(224,734)	42,457	
Off-balance items					
Assets receivable	611,111	1,121,080	671,581	76,584	2,480,356
Assets for delivery	(526,534)	(1,349,822)	(489,696)	(117,819)	(2,483,871)
Net long/(short) unrecognized position	84,577	(228,742)	181,885	(41,235)	
Total long/(short) recognized and unrecognized position	5,116,314	(29,909)	(42,849)	1,222	

(in Hryvnias and in thousands, unless otherwise indicated)

The major foreign currency denominated positions of assets and liabilities as at 31 December 2016 are as follows:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents and current accounts in the National Bank of Ukraine	1,907,205	272,905	259,508	42,514	2,482,132
Precious metals	–	–	–	14,112	14,112
Due from credit institutions	824,297	3,243,623	2,164,012	289,995	6,521,927
Loans to customers	14,626,038	4,473,490	1,252,056	–	20,351,584
Trading securities	4,555	381,899	–	–	386,454
Investments available for sale	8,354,784	11,641,973	–	–	19,996,757
Investments held to maturity	1,000,657	–	–	–	1,000,657
Investment property	50,814	–	–	–	50,814
Property and equipment and intangible assets	1,509,943	–	–	–	1,509,943
Assets held for sale	1,129,309	–	–	–	1,129,309
Current income tax assets	4,921	–	–	–	4,921
Deferred income tax assets	82,561	–	–	–	82,561
Other assets	320,245	30,005	15,092	–	365,342
Total assets	29,815,329	20,043,895	3,690,668	346,621	53,896,513
Liabilities					
Amounts due to National Bank of Ukraine	574,997	–	–	–	574,997
Due to credit institutions	106,617	695,030	279,237	24,816	1,105,700
Due to customers	23,827,610	18,851,117	3,399,834	102,405	46,180,966
Provisions for guarantees and commitments	2,094	–	58,410	–	60,504
Other liabilities	324,696	29,565	311,961	3,338	669,560
Total liabilities	24,836,014	19,575,712	4,049,442	130,559	48,591,727
Net long (short) recognized position	4,979,315	468,183	(358,774)	216,062	
Off-balance items					
Assets receivable	674,963	988,518	624,012	3,665	2,291,158
Assets for delivery	(577,654)	(1,240,997)	(261,549)	(217,838)	(2,298,038)
Net long (short) unrecognized position	97,309	(252,479)	362,463	(214,173)	
Total long (short) recognized and unrecognized position	5,076,624	215,704	3,689	1,889	

The tables below indicate the currencies to which the Bank had significant exposure as at 31 March 2017 and 2016 on its non-trading monetary assets and liabilities and its estimated cash flows. The analysis includes the effect of a possible change in the currency exchange rate of UAH against foreign currencies with all other variables remaining unchanged in the Bank's statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities that are available in the Bank's portfolio). A negative amount in the table reflects a potential net increase in loss or decrease in equity while a positive amount reflects a net potential decrease in loss or increase in equity.

Currency	Increase in foreign currency exchange rate % 31 March 2017	Effect on loss before tax 31 March 2017	Increase in foreign currency exchange rate % 31 March 2016	Effect on loss before tax 31 March 2016
USD	53.00%	(15,852)	67.00%	(58,914)
EUR	53.00%	(22,710)	67.00%	(7,137)
Currency	Decrease in foreign currency exchange rate % 31 March 2017	Effect on loss before tax 31 March 2017	Decrease in foreign currency exchange rate % 31 March 2016	Effect on loss before tax 31 March 2016
USD	-13.00%	3,888	-18.00%	15,828
EUR	-15.00%	6,427	-18.00%	1,917

*(in Hryvnias and in thousands, unless otherwise indicated)***31. Fair value measurements**

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 regardless of whether that price is directly observable or estimated using another valuation technique.

The estimated fair value has been determined by the Bank using available market information where it exists and appropriate valuation methodologies. However judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument or pay in the transfer of liabilities.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis and fair value of buildings

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly; and
- ▶ level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Some of the Bank's financial assets and financial liabilities as well as the Bank's buildings are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets and financial liabilities are determined (in particular the valuation techniques and inputs used):

Assets/liabilities	Fair value hierarchy	Valuation techniques and key inputs
Trading securities	1	Quoted bid prices in an active market.
Investments available for sale	2	Discounted cash flows. Future cash flows are estimated based on the inputs that are observable either directly or indirectly and the estimates use one or more observable quoted prices for orderly transactions in the markets that are not considered active.
	3	Discounted cash flows. Future cash flows are estimated based on both observable and unobservable inputs. Unobservable inputs include assumptions regarding future financial performance of the issuer its risk profile and economic performance of the industry and geographical jurisdiction where the issuer operates.
Investment property	3	The Bank engages professional independent appraisers to determine the fair value of its investment property by using the sales comparison method and for items for which there are no market analogs the income capitalization method is used. In the sales comparison method the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of the property). The main parameter used in this valuation technique is the price per square meter of a property.
Derivative financial instruments	2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (observable foreign exchange rates at the end of the reporting period) and forward exchange rates discounted at a rate reflecting a credit risk from different counterparties. In addition imbedded derivatives for indexed securities are recognized.
Buildings and land plots assets held for sale	3	The Bank engages professional independent appraisers to determine the fair value of its buildings and land plots assets held for sale by using the sales comparison method and for items for which there are no market analogs the income capitalization method is used. In the sales comparison method the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of the property). The main parameter used in this valuation technique is the price per square meter of a property.

(in Hryvnias and in thousands, unless otherwise indicated)

The following table summarizes financial instruments recognized at fair value on initial recognition using a three level fair value hierarchy:

31 March 2017				
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Trading securities	-	372,958	-	372,958
Investments available for sale	5	28,124,212	11,312	28,135,529
Derivative financial assets	-	3,966	-	3,966
Investment property	-	-	49,463	49,463
Buildings and land plots	-	-	1,022,396	1,022,396
Assets held for sale	-	-	1,103,270	1,103,270
Total	5	28,501,136	2,186,441	30,687,582
Liabilities measured at fair value				
Derivative financial liabilities	-	7,481	-	7,481
Total	-	7,481	-	7,481
31 December 2016				
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Trading securities	-	386,454	-	386,454
Investments available for sale	5	19,985,440	11,312	19,996,757
Derivative financial assets	-	9,420	-	9,420
Investment property	-	-	50,814	50,814
Buildings and land plots	-	-	1,022,396	1,022,396
Assets held for sale	-	-	1,129,309	1,129,309
Total	5	20,381,314	2,213,831	22,595,150
Liabilities measured at fair value				
Derivative financial liabilities	-	16,300	-	16,300
Total	-	16,300	-	16,300

Movements in Level 3 financial instruments measured at fair value

The following table shows reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	As at 1 January 2017	Total gains/ (losses) recognized in profit or loss	Additions	Sales	Repayment	Write down recognised in equity	Transfers from Level 1 and from Level 2	As at 31 March 2017
Investments available for sale	11,312	-	-	-	-	-	-	11,312
	As at 1 January 2016	Total gains/ (losses) recognized in profit or loss	Additions	Sales	Repayment	Write down recognised in equity	Transfers from Level 1 and from Level 2	As at 31 December 2016
Investments available for sale	128,233	(116,921)	-	-	-	-	-	11,312

(in Hryvnias and in thousands, unless otherwise indicated)

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

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	As at 31 March 2017		As at 31 December 2016	
	Carrying amount	Effect of potential alternative assumptions	Carrying amount	Effect of potential alternative assumptions
Financial assets				
Investments available for sale	11,312	(11,312)	11,312	(11,312)

Fair value of financial assets and liabilities not carried at fair value

The estimated fair values of financial assets and liabilities are determined using market prices discounted cash flows and other appropriate valuation techniques and may not be indicative of the fair value of those instruments at the date these financial statements are authorized for issue. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows current economic conditions risk characteristics of various financial instruments and other factors.

Due from and due to other banks comprise short-term placements and borrowings. Due to short-term life of those financial instruments and corresponding actual interest rates to those prevailing money market interest rates for similar financial instruments the carrying amounts of due from banks balances approximate their fair value. The same assumption was used for due to customers.

To determine the fair value expected cash flows are discounted at market rates prevailing as at the reporting date for similar instruments.

Financial assets/ financial liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)
Loans to customers	3	Discounted cash flows. Future cash flows are estimated based on both observable and unobservable inputs. Unobservable inputs include assumptions regarding future financial performance of the issuer its risk profile and economic performance of the industry and geographical jurisdiction where the issuer operates. The most significant inputs included a discount rate reflecting the credit risk of counterparties.
Investments held to maturity	1	Quoted bid prices in an active market.
Due to the National Bank of Ukraine	3	Discounted cash flows. Future cash flows are estimated based on unobservable inputs.
Due to customers	3	Discounted cash flows. Future cash flows are estimated based on unobservable inputs.

	31 March 2017			
	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	3,565,632	–	–	3,565,632
Due from credit institutions	–	–	7,539,443	7,539,443
Loans to customers	–	–	21,732,275	21,732,275
Investments held to maturity	–	–	–	–
Total	3,565,632	–	29,271,718	32,837,350
Liabilities for which fair values are disclosed				
Due to the National Bank of Ukraine	–	–	535,408	535,408
Due to credit institutions	–	–	1,019,663	1,019,663
Due to customers	–	–	58,697,583	58,697,583
Total	–	–	60,252,654	60,252,654

(in Hryvnias and in thousands, unless otherwise indicated)

	31 December 2016			Total
	Level 1	Level 2	Level 3	
Assets for which fair values are disclosed				
Cash and cash equivalents	2,482,132	-	-	2,482,132
Due from credit institutions	-	-	6,521,927	6,521,927
Loans to customers	-	-	21,000,129	21,000,129
Investments held to maturity	1,000,657	-	-	1,000,657
Total	3,482,789	-	27,522,056	31,004,845
Liabilities for which fair values are disclosed				
Due to the National Bank of Ukraine	-	-	574,997	574,997
Due to credit institutions	-	-	1,105,700	1,105,700
Due to customers	-	-	46,264,609	46,264,609
Total	-	-	47,945,306	47,945,306

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

	31 March 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	3,565,632	3,565,632	2,482,132	2,482,132
Due from credit institutions	7,539,443	7,539,443	6,521,927	6,521,927
Loans to customers	21,045,733	21,732,275	20,351,584	21,000,129
Investments held to maturity	-	-	1,000,657	1,000,657
Total assets	32,150,808	32,837,350	30,356,300	31,004,845
Financial liabilities				
Due to the National Bank of Ukraine	535,408	535,408	574,997	574,997
Due to credit institutions	1,019,663	1,019,663	1,105,700	1,105,700
Due to customers	56,639,113	58,697,583	46,180,966	46,264,609
Total liabilities	58,194,184	60,252,654	47,861,663	47,945,306

*(in Hryvnias and in thousands, unless otherwise indicated)***32. Analysis of assets and liabilities by maturities**

The table below summarizes assets and liabilities according to the periods when they are expected to be recovered or settled. See Note 31 for the Bank's contractual undiscounted repayment obligations.

	31 March 2017				31 December 2016			
	Within one year	More than one year	Maturity undefined	Total	Within one year	More than one year	Maturity undefined	Total
Cash and cash equivalents	3,565,632	-	-	3,565,632	2,482,132	-	-	2,482,132
Precious metals	13,533	-	-	13,533	14,112	-	-	14,112
Derivative financial assets	3,966	-	-	3,966	9,420	-	-	9,420
Due from credit institutions	7,539,443	-	-	7,539,443	6,521,927	-	-	6,521,927
Loans to customers*	11,074,009	9,971,724	-	21,045,733	12,095,856	8,255,728	-	20,351,584
Trading securities	372,958	-	-	372,958	386,454	-	-	386,454
Investments available for sale	18,124,955	10,010,574	-	28,135,529	6,245,517	13,751,240	-	19,996,757
Investments held to maturity	-	-	-	-	1,000,657	-	-	1,000,657
Investment property	-	-	49,463	49,463	-	-	50,814	50,814
Property and equipment and intangible assets	-	-	1,515,096	1,515,096	-	-	1,509,943	1,509,943
Assets held for sale	1,103,270	-	-	1,103,270	1,129,309	-	-	1,129,309
Current tax assets	-	4,921	-	4,921	-	4,921	-	4,921
Deferred tax assets	-	65,621	-	65,621	-	82,561	-	82,561
Other assets	317,112	-	-	317,112	365,342	-	-	365,342
Total	42,114,878	20,052,840	1,564,559	63,732,277	30,250,726	22,094,450	1,560,757	53,905,933
Due to the National Bank of Ukraine	217,614	317,794	-	535,408	181,621	393,376	-	574,997
Due to credit institutions	793,750	225,913	-	1,019,663	885,576	220,124	-	1,105,700
Derivative financial liabilities	7,481	-	-	7,481	16,300	-	-	16,300
Due to customers	55,962,947	676,166	-	56,639,113	45,621,747	559,219	-	46,180,966
Provisions for guarantees and commitments	162,731	-	-	162,731	60,504	-	-	60,504
Other liabilities	323,103	-	-	323,103	669,560	-	-	669,560
Total	57,467,626	1,219,873	-	58,687,499	47,435,308	1,172,719	-	48,608,027
Net amount	(15,352,748)	18,832,967	1,564,559	5,044,778	(17,184,582)	20,921,731	1,560,757	5,297,906

* As at 31 March 2017 loans to customers repayable within one year include UAH 394,181 thousand of the overdue loans (2016: UAH 439,307 thousand).

The Bank's management believes that negative liquidity gap (liquidity gap between financial assets and financial liabilities repayable within one year as at 31 March 2017 amounted to UAH 16,445,655 thousand) that arose as at 31 March 2017 is under control and does not threaten the Bank's ability to settle its liabilities in full and in a timely manner. Thus the Bank has an access to secondary reserve of liquid funds represented by:

- Unencumbered securities – Ukrainian state bonds in the amount of UAH 8,859,881 thousand bonds of the State Mortgage Institution in the amount of UAH 179,210 thousand corporate bonds in portfolio of bank in the amount of UAH 116,269 thousand that have a high degree of liquidity and were included in the category of repayable after one year. Liquid funds may be received either through the sale of the said securities or attraction of a refinancing borrowing from the National Bank of Ukraine with the securities used as a collateral. As at 31 March 2017 the fair value of securities that may be considered as a cover for the cumulative liquidity gap in the category of repayable within one year amounted to UAH 9,155,360 thousand.
- Stable balances on current customer accounts determined on the basis of statistical analysis of fluctuations in current customer account balances. As at 31 March 2017 stable balances on current accounts were estimated to be equal to UAH 6,978,734 thousand. Based on the going concern assumption actual maturity of the stable balances may be considered as undefined.

Thus the negative liquidity gap that arose as at 31 March 2017 in the amount of UAH 16,445,655 thousand based on the estimated maturities of the abovementioned financial instruments has changed to a liquidity gap and may be estimated in the amount of UAH 311,561 thousand, (0.5% of assets) is fully manageable and if necessary, can be covered by standard tools to support liquidity.

(in Hryvnias and in thousands, unless otherwise indicated)

33. Related party transactions

The Bank grants loans and advances to customers attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability directly or indirectly through one or more intermediaries to control the other party or exercise significant influence over the party when making financial and operational decisions. Terms and conditions of transactions with related parties are established on a daily basis and may differ from the market terms.

As at 31 March 2017 the Bank was by 94.94% a state-owned bank under control of the Ministry of Finance of Ukraine (2016: 94.94%). Correspondingly transactions and balances with related parties comprise transactions with government government-related entities (both directly and indirectly) key management personnel and entities if any that are controlled jointly controlled or significantly influenced by them.

A government-related entity is an entity that is controlled jointly controlled or significantly influenced by the government.

Government refers to government agencies and similar bodies whether local national or international.

In considering each possible related party relationship attention is directed to the substance of the relationship and not merely their legal form. The balances and transactions with related parties as at end of period and relevant amounts of profit and losses for period are as follows:

	31 March 2017			31 December 2016		
	State controlled entities	Other related parties	Key management personnel	State controlled entities	Other related parties	Key management personnel
Assets						
Current accounts with the National Bank of Ukraine	2,501,695	–	–	1,178,348	–	–
Current accounts with other credit institutions	70,384	–	–	289,753	–	–
Due from credit institutions	102	86	–	102	–	–
Loans gross	9,101,924	1,406	15,656	10,691,593	911	14,360
Less: allowance for impairment	(302,214)	(1)	(200)	(212,235)	(1)	(147)
Trading securities	372,959	–	–	386,454	–	–
Investments available for sale	28,130,872	–	–	19,890,594	–	–
Investments held to maturity	–	–	–	1,000,657	–	–
Liabilities						
Due to the National Bank of Ukraine	535,408	–	–	574,997	–	–
Due to credit institutions	90	4,764	–	275	2,700	–
Due to customers – deposits	11,771,115	57,205	72,877	7,305,521	57,766	74,346
Due to customers – current accounts	15,624,432	10,809	15,262	11,505,632	10,749	14,408
Commitments and guarantees issued	14,664,956	312	3,872	9,424,202	323	3,979
Statement of profit or loss and other comprehensive income						
Interest income on loans	327,642	39	127	1,059,303	103	513
Interest income on investments available for sale	6,154	–	–	7,354	–	–
Interest income on investments held to maturity	552,984	–	–	1,738,367	–	–
Interest income on trading securities	47,835	–	–	838,290	–	–
Interest expense on due to the National Bank of Ukraine	17,105	–	–	183,215	–	–
Interest expense on due to credit institutions	–	–	–	80,442	42	–
Interest expense on due to customers	442,577	1,643	1,592	2,296,901	4,453	4,076
Allowance for impairment of loans: (provision)/recovery	(89,979)	–	(53)	(117,835)	711	(147)
Net losses from trading securities	4,774	–	–	(406)	–	–
Net gains on investments available for sale	13,828	–	–	26,436	–	–
Other operating expense	25,680	–	–	89,699	–	–

(in Hryvnias and in thousands, unless otherwise indicated)

Concentration risk – Concentration risk is determined by the Bank as the risk of possible losses due to concentration of risk in specific instruments, operations and industries.

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" is the bank specific activities of which are related to a significant scale of operations with state-owned companies, resulting in the significant concentration of credit and investment risks in relation to certain counterparties and groups of related counterparties and industries.

As at 31 March 2017 63% of assets and 48% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities.

As at 31 December 2016 61% of assets and 40% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities.

The Bank manages concentration risk in its loan and investment portfolios by setting limits for certain counterparties and groups of counterparties.

Remuneration to key management personnel comprises the following:

	31 March 2017	31 March 2016
Salaries and bonuses	5,874	2,989
Charges on payroll	–	–
Total remuneration to key management personnel	5,874	2,989

34. Capital adequacy

The Bank defines as capital those items defined by statutory regulations of Ukraine and the Basel Accord as capital for credit institutions. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered, and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The regulator, the National Bank of Ukraine, sets and monitors capital requirements for the Bank as a whole. The Bank as a whole and its individual banking operations are directly supervised by the local regulator.

Under the current capital requirements set by the National Bank of Ukraine, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 March 2017 and 31 December 2016 the minimum level required by the National Bank of Ukraine was 10%. The Bank was in compliance with the statutory capital ratios during the periods ended 31 March 2017 and 31 December 2016.

The Bank is also subject to minimum capital requirements under borrowing arrangements established by covenants including capital adequacy levels calculated in accordance with the requirements of the Basel Accord of 1988, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

As at 31 March 2017 and 31 December 2016 the minimum level required by Basel I was 8% and the minimum Tier 1 capital adequacy ratio was – 4%.

The following table shows the composition of the capital position calculated in accordance with the requirements of Basel I as at 31 March 2017 and 31 December 2016:

	31 March 2017	31 December 2016
Tier 1 capital	5,828,269	5,806,795
Tier 2 capital	(783,491)	(508,889)
Total capital	5,044,778	5,297,906
Risk weighted assets	34,667,614	34,674,864
Tier 1 capital ratio	16.81%	16.75%
Total capital ratio	14.55%	15.28%

As at 31 March 2017 the Bank was in compliance with the capital ratio calculated in accordance with the Basel Accord.

35. Subsequent events

Subsequent to 31 March 2017, effective from 14 April 2017, the National Bank of Ukraine has lowered the discount rate from 14.0% to 13.0% p.a.