Translation from Ukrainian original

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK"

Interim Condensed Financial Statements

for the six months ended 30 June 2018
(unaudited)

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

(in Hryvnias and in thousands)

	Notes	*30 June 2018*	*31 December 2017*
Assets			
Cash and cash equivalents	7	15,271,698	7,264,287
Precious metals		2,194	7,958
Due from credit institutions	8	641,439	3,739,554
Derivative financial assets	9	4,075	910
Loans to customers and financial leases	10	29,998,896	33,646,433
Trading securities		288,920	315,094
Investments available for sale	11	30,509,457	20,576,663
Investment property		377,021	348,834
Property and equipment and intangible assets		1,641,721	1,736,061
Assets held for sale	12	14,845	60,508
Other property		771,040	740,764
Current income tax assets		4,921	4,921
Deferred income tax assets	13	47,216	187,584
Other assets	15	576,500	583,656
Total assets		**80,149,943**	**69,213,227**
Liabilities			
Due to the National Bank of Ukraine	16	262,495	414,104
Due to credit institutions	17	3,047,606	1,946,930
Derivative financial liabilities	9	4,495	3,775
Due to customers	18	70,027,706	60,646,118
Provisions for guarantees and commitments	14	759,640	209,392
Other liabilities	15	557,234	367,595
Total liabilities		**74,659,176**	**63,587,914**
Equity			
Share capital	19	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	19	(57,953)	278,424
Accumulated deficit		(6,803,479)	(7,005,310)
Total equity		**5,490,767**	**5,625,313**
Total equity and liabilities		**80,149,943**	**69,213,227**

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

Kyrylo Shevchenko Chairman of the Management Board

Nataliia Khrustalova Chief Accountant

30 July 2018

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Notes on the pages from 6 to 52 form an integral part of these financial statements

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018

(in Hryvnias and in thousands)

	Notes	*Reporting period* for the current quarter	*Reporting period* for the current quarter cumulative since the year	*Previous period (reclassified)* for the current quarter	*Previous period (reclassified)* for the current quarter cumulative since the year
Interest income					
Loans to customers, less agreements of financial leases		1,150,164	2,343,693	879,385	1,698,884
Investments available for sale		534,784	1,003,200	539,767	1,038,206
Deposit certificates of the National Bank of Ukraine		395,130	602,965	246,998	368,226
Due from credit institutions		24,868	52,320	13,184	44,532
		2,104,946	**4,002,178**	**1,679,334**	**3,149,848**
Trading securities		–	13,052	5,849	12,003
Agreements of financial leases		6,105	9,421	–	–
		2,111,051	**4,024,651**	**1,685,183**	**3,161,851**
Interest expense					
Due to the National Bank of Ukraine		(9,605)	(21,439)	(16,061)	(33,166)
Due to customers		(1,246,486)	(2,370,339)	(1,130,781)	(2,159,268)
Due to credit institutions		(13,214)	(21,060)	(7,055)	(9,968)
		(1,269,305)	**(2,412,838)**	**(1,153,897)**	**(2,202,402)**
Net interest income, before allowance for impairment of loans		**841,746**	**1,611,813**	**531,286**	**959,449**
Change in allowance for impairment of loans	7,8,10	60,162	144,971	(85,109)	(186,462)
Net interest income, after allowance for impairment of loans		**901,908**	**1,756,784**	**446,177**	**772,987**
Losses on initial recognition of financial assets		(340)	(2,261)	–	(2,864)
Result on initial recognition on loans to customers at fair value through profit or loss		–	2	–	–
Net fee and commission income	21	173,046	322,499	126,195	239,420
Net (losses)/gains on trading securities	22	2,958	(6,157)	175	4,949
Net gains on investments available for sale	23	5,239	4,497	17,275	25,600
Net (losses) on foreign exchange operations and banks precious metals	24	(53,038)	(294,319)	(135,507)	(129,064)
Result on operations with derivative financial instruments		33,337	93,414	48,335	57,064
Net gains on investment property		5,356	10,527	1,919	4,305
Other income	25	31,113	64,371	19,305	76,630
Non-interest income		**197,671**	**192,573**	**77,697**	**276,040**
Staff costs	26	(265,749)	(561,935)	(228,893)	(388,529)
Other operating expense	26	(226,554)	(393,308)	(174,796)	(360,434)
Depreciation and amortization		(70,422)	(134,151)	(36,163)	(72,840)
Change in allowance for impairment of other assets and other provisions	14	(270,308)	(503,661)	(20,208)	(124,996)
Non-interest expense		**(833,033)**	**(1,593,055)**	**(460,060)**	**(946,799)**
Profit before income tax		**266,546**	**356,302**	**63,814**	**102,228**
Income tax expense	13	(104,813)	(140,368)	(20,774)	(37,714)
Net profit		**161,733**	**215,934**	**43,040**	**64,514**

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

		Reporting period		*Previous period (reclassified)*	
	Notes	*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		**161,733**	**215,934**	**43,040**	**64,514**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Unrealized (losses)/gains on investments available for sale		(192,193)	(309,178)	17,390	(266,142)
Realized profits on investments available for sale		4,404	7,020	17,275	26,205
		(187,789)	**(302,158)**	**34,665**	**(239,937)**
Total comprehensive (losses)/ income		**(26,056)**	**(86,224)**	**77,705**	**(175,423)**
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)		0.01	0.02	–	0.01

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

Kyrylo Shevchenko — Chairman of the Management Board

Nataliia Khrustalova — Chief Accountant

30 July 2018

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INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018

(in Hryvnias and in thousands)

	Notes	*Share capital*	*Acquired title of ownership to shares*	*Result from transactions with share-holders*	*Additional paid-in capital*	*Other reserves*	*Accumulated deficit*	*Total equity*
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 six months of 2017		–	–	–	–	(239,937)	64,514	**(175,423)**
As at 30 June 2017		**13,837,000**	**(518,439)**	**(1,102,304)**	**135,942**	**353,478**	**(7,583,194)**	**5,122,483**
As at 31 December 2017		**13,837,000**	**(518,439)**	**(1,102,304)**	**135,942**	**278,424**	**(7,005,310)**	**5,625,313**
Impact of adopting IFRS 9 and other reclassifications		–	–	–	–	(33,167)	(15,155)	(48,322)
Restated balance a s at 31 December 2017		**13,837,000**	**(518,439)**	**(1,102,304)**	**135,942**	**245,257**	**(7,020,465)**	**5,576,991**
Total comprehensive income for the six months of 2018	19	–	–	–	–	(302,158)	215,934	**(86,224)**
Transfer as a result of retirement of assets		–	–	–	–	(1,052)	1,052	–
As at 30 June 2018		**13,837,000**	**(518,439)**	**(1,102,304)**	**135,942**	**(57,953)**	**(6,803,479)**	**5,490,767**

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

Kyrylo Shevchenko — Chairman of the Management Board

Nataliia Khrustalova — Chief Accountant

30 July 2018

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INTERIM CONDENSED STATEMENT OF CASH FLOWS (The direct method)

for the six months ended 30 June 2018

(in Hryvnias and in thousands)

	Notes	30 June 2018	30 June 2017
Cash flows from operating activities			
Interest received		4,126,775	3,035,807
Interest paid		(2,364,670)	(2,161,128)
Fees and commissions received		396,404	307,211
Fees and commissions paid		(87,684)	(69,194)
Net result on foreign exchange operations (realized)	24	(24,386)	47,250
Result on operations with derivative financial instruments		90,969	49,102
Other income received		59,422	22,192
Staff costs		(545,043)	(360,100)
Other operating expense		(168,565)	(331,194)
Trading result on investments in securities	23	–	423
Cash flows from operating activities before changes in operating assets and liabilities		**1,483,222**	**540,369**
Net decrease/(increase) in operating assets			
Precious metals		4,435	3,012
Due from credit institutions		3,065,951	2,030,906
Loans to customers and financial leases		2,334,700	(9,906,589)
Other assets		2,369	(11,892)
Net (decrease)/increase in operating liabilities			
Due to credit institutions		233,029	244,705
Due to customers		11,754,277	12,309,528
Other liabilities		170,213	(52,505)
Net cash generated from operating activities		**19,048,196**	**5,157,534**
Cash flows from investing activities			
Acquisition of investment securities and investments held to maturity		(213,273,739)	(255,097)
Proceeds on sale and repayment of investment securities and investments held to maturity		202,331,308	(2,545,647)
Acquisition of property and equipment		(274,191)	(107,509)
Proceeds on disposal of property and equipment and intangible assets		5,184	476
Proceeds on investment property		10,527	4,305
Proceeds on disposal of assets held for sale	12	48,571	152,938
Proceeds on disposal of sale of other property		650	–
Net cash generated from/(used in) investing activities		**(11,151,690)**	**(2,750,534)**
Cash flows from financing activities			
Proceeds of borrowed funds from credit institutions		1,009,704	–
Repayment on borrowed funds from the National Bank of Ukraine		(156,235)	(90,000)
Net cash generated from financing activities	32	**853,469**	**(90,000)**
Effect of exchange rate changes on cash and cash equivalents		(735,707)	(8,927)
Net increase/(decrease) in cash and cash equivalents		**8,014,268**	**2,308,073**
Cash and cash equivalents, at the beginning of the period		**7,264,287**	**2,482,132**
Cash and cash equivalents, at the end of the period	7	**15,278,555**	**4,790,205**

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

Kyrylo Shevchenko Chairman of the Management Board

Nataliia Khrustalova Chief Accountant

30 July 2018

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239-28-36

Notes on the pages from 6 to 52 form an integral part of these financial statements

(in Hryvnias and in thousands)

1. General information

Organization structure and operations

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK “UKRGASBANK” (the “Bank”) was established on 21 July 1993 based on the merger of several commercial banks. In March 2009, on the extraordinary General meeting the shareholders of the Bank applied to the Government of Ukraine with the offer to take state control over the Bank’s share capital. In June 2009, in reply for the shareholders appeal the Government of Ukraine agreed to obtain control over the Bank by receiving majority stake of share capital.

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 30 June 2018, the Bank’s network consisted of 242 registered outlets (including 242 operating outlets) (2017: 243 outlets, including 243 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 30 June 2018 and 31 December 2017, the Bank’s issued shares were held by the following shareholders:

Shareholder	***30 June 2018, %***	***31 December 2017, %***
The Ministry of Finance of Ukraine	94.94	94.94
LLC “BKS INVEST”	0.73	0.73
Other	4.33	4.33
Total	**100.00**	**100.00**

As at 30 June 2018 and 31 December 2017, the Bank’s ultimate controlling party was the Ukrainian government represented by the Ministry of Finance of Ukraine.

These interim financial statements were authorized for issue and signed by the Bank’s management on 30 July 2018.

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 2017 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 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)

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 that are carried at revalued amount, investment property that is valued at fair value, assets held for sale, which are valued at the lower of two – the carrying amount or fair value less cost to sell, and certain financial instruments that are measured at fair value at the end of year, as explained in the accounting policies below.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2017, except for the adoption of new Standards effective as of 1 January 2018. The nature and the effect of these changes are disclosed below.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

The impact of transition to IFRS 9 on other reserves and accumulated deficit is as follows:

	Other reserves and accumulated deficit
Other reserves	
Closing balance as at 31 December 2017 under IAS 39	**278,424**
Translation differences from assessment of investments available for sale	(33,167)
Adjusted balance as at 31 December 2017	**245,257**
Accumulated deficit	
Closing balance as at 31 December 2017 under IAS 39	**(7,005,310)**
Change in allowance for impairment of assets / provisions for guarantees and commitments and other reclassifications:	
Cash and cash equivalents	(4,073)
Due from credit institutions	1,396
Loans to customers and financial leases	47,349
Investments available for sale	33,147
Other assets	(11,973)
Provisions for guarantees and commitments (excluding provisions for legal risks)	(47,696)
Other changes in valuation:	
Loans to customers and financial leases	(33,305)
Adjusted balance as at 31 December 2017	**(7,020,465)**

(in Hryvnias and in thousands)

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 to the expected credit loss (ECL) allowances and other changes in valuation under IFRS 9 and other changes of assessments:

	Allowance for impairment of assets / provisions for guarantees and commitments IAS 39 / IAS 37 as at 31.12.2017	**Impaired interest** under **IAS 39 as at 31.12.2017**	**Re-classification under IFRS 9**	**Re – measurement/ other reclassifications**	**Expected credit loss allowances under IFRS 9 as at 01.01.2018**
Cash and cash equivalents	–	–	(6,927)	(4,073)	(11,000)
Due from credit institutions	(744,777)	–	6,927	1,396	(736,454)
Loans to customers and financial leases	(8,406,630)	(843,522)	–	47,349	(9,202,803)
Investments available for sale	(59,380)	–	–	33,147	(26,233)
Other assets	(730,809)	(16,279)	–	(11,973)	(759,061)
Provisions for guarantees and commitments (excluding provisions for legal risks)	(201,723)	–	–	(47,696)	(249,419)
Loans to customers and financial leases (other changes in valuation at initial recognition)	–	–	–	(33,305)	–
Total	**(10,143,319)**	**(859,801)**	–	**(15,155)**	**(10,984,970)**

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 of leases 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.

Reclassification

While preparing 2017 financial statements, the management of the Bank made a decision on a separate presentation of interest income from deposit certificates of the National Bank of Ukraine. Information for the first half of 2017 was reclassified accordingly.

(in Hryvnias and in thousands)

Since 1 January 2018, the Bank changed its approach in presentation of losses on allowance for impairment and results from translation differences on allowance for impairment. Information for the first half of 2017 was reclassified accordingly.

	As previously reported	*Reclassification*	*As reclassified*
Statement of profit or loss and other comprehensive income			
Investments available for sale	1,356,518	(318,312)	1,038,206
Deposit certificates of the National Bank of Ukraine	–	368,226	368,226
Investments held to maturity	49,914	(49,914)	–
Change in allowance for impairment of loans	(360,471)	174,009	(186,462)
Net gains on foreign exchange operations and precious metals	40,215	(169,279)	(129,064)
Change in allowance for impairment of other assets and other provisions	(120,266)	(4,730)	(124,996)

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

Interim condensed 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.

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	*30 June 2018*	*31 December 2017*
UAH/USD	26,1892	28,0672
UAH/EUR	30,5680	33,4954

(in Hryvnias and in thousands)

Financial assets

Initial recognition

Until 1 January 2018 financial assets according to 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, except for financial assets measured at fair value through profit or loss, expenses which are recognized in profit or loss. 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 investments 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.

Government grants in the form of non-financial assets from the public authorities are recognized at net present value of future cash flows related to interest income compensation. Loss on initial recognition of preferential loans is presented on a net basis of revenue recognition of government grants in the profit or loss and other comprehensive income.

Further accounting for receivables for government grants are carried at amortized cost using the effective interest method and are subject to impairment with subsequent recognition of income and expenses in the profit or loss and other comprehensive income when the instrument is derecognised or if it was impaired or amortized.

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.

(in Hryvnias and in thousands)

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise 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 comprehensive income 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, 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 six months, which are subject to insignificant risk of fair value changes and are used by the Bank to manage its short-term commitments, including the overnight 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 article “Net gains from operations with foreign currency and 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.

(in Hryvnias and in thousands)

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.

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.

Financial lease is a lease, whereby the lessee transfers substantially all the risks and rewards of possession related to ownership.

At the beginning of the lease term, the Bank as a lessee recognizes a financial lease as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the beginning of the lease, or (if they are less than fair value) at the present value of the minimum lease payments, which is determined on start of lease

As a lessor, the Bank recognizes assets held under financial lease agreements in the statement of financial position as a loan issued for an amount equal to net investment in the lease. The lease payment to be received is considered as the

(in Hryvnias and in thousands)

repayment of the principal amount of the debt and financial income to provide compensation and remuneration to the lessor for its investments and services.

Expected credit loss / Impairment of financial assets

Since 1 January 2018, the Bank has been recording the allowance for expected credit losses for financial assets held at amortized costs or measured at fair value through other comprehensive income.

The Bank has established a policy to perform an assessment, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument to one of follows stages described below:

- Stage 1: financial instruments for which there are no signs of a significant increase in credit risk. According to these financial instruments recognises an allowance based on the 12 months’ expected credit loss;
- Stage 2: financial instruments for which there are signs of a significant increase in credit risk from the initial recognition but no signs of impairment exist. According to these financial instruments records an allowance for the lifetime expected credit loss;
- Stage 3: financial instruments for which there are signs of a significant increase in credit risk from the moment of initial recognition and objective evidence of impairment. According to these financial instruments records an allowance for the lifetime expected credit loss.

The Bank applies two approaches to assessing impairment of financial instruments:

- individual valuation - is performed for financial instruments that are considered to be material and for which there are signs of a significant increase in credit risk from the moment of initial recognition;
- the estimation of expected loan losses for each loan of the borrower of the bank is based on probabilistic weighted discounted cash flows. The Bank considers several recovery scenarios by the borrower and takes into account each of them;
- collective assessment - is performed for financial instruments that are not considered to be material or which have not revealed signs of a significant increase in credit risk since the date of initial recognition. The collective approach applies a portfolio-based assessment.

For calculation of the expected loss amounts under IFRS 9 (forward-looking expected loan loss, ECL), the Bank uses the following components:

- PD (the Probability of Default) is the component of the amount of the provision that reflects the probability that the debtor/ counterparty will cease to fulfill its obligations. In calculating the reserve for estimating the probability of default, adjustments are made depending on the forecast of the implementation of the scenario of economic development;
- LGD (the Loss Given Default) is component of the calculation of the amount of the allowance, which reflects the level of losses (losses) due to default of the debtor / counterparty;
- EAD (The Exposure at Default) is component of the calculation of the size of the reserve, consisting of the following components: principal debt, accrued income, discounts / bonuses.

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.

(in Hryvnias and in thousands)

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 change of the allowance for impairment.

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.

Investments 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

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 reporting period, 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 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.

(in Hryvnias and in thousands)

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.

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 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.

(in Hryvnias and in thousands)

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:

	Years
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.

(in Hryvnias and in thousands)

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.

Other property

The Bank recognizes as other property non-current assets that have been acquired by foreclosure of the collateral and are held for the purpose of sale. These assets do not conform the criteria for recognition as assets held for sale and cannot be recognized as non-current assets used in operating activities of the Bank or investment property. These assets are measured at the lower of two – cost or net realizable value.

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.

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".

(in Hryvnias and in thousands)

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.

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, 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.

(in Hryvnias and in thousands)

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

As at 30 June 2018 the following new standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's interim condensed financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

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

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

IFRS 16 Leases

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

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

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

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

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

IFRS 17 Insurance Contracts

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

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

(in Hryvnias and in thousands)

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank does not expect from application of this standard on the financial position and results of the Bank.

Annual improvements 2014-2016 cycle

These improvements include:

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Annual improvements 2015-2017 cycle

These improvements are applied for annual reporting periods beginning on or after 1 January 2019 and include:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation

These amendments clarify whether the previously held interest in a joint operation (that is a business as defined in IFRS 3) should be remeasured to fair value, when:

- A party to a joint operation obtains control over the joint operation (IFRS 3);
- A party that participates in (but does not have joint control over a joint operation) obtains joint control over the joint operation (IFRS 11).

The Bank does not expect any effect on its financial statements.

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

These amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalization

These amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Earlier application is permitted and should be disclosed. The Bank does not expect any effect on its financial statements.

(in Hryvnias and in thousands)

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 comparative approach to evaluation. The comparative approach to evaluation 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.

(in Hryvnias and in thousands)

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 comparative approach to evaluation. comparative approach to evaluation is based on an analysis of the 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 (hereinafter – “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 half of 2018, the Bank received revenue from the loan transactions with a single client in the amount of UAH 361,622 thousand.
During the first half of 2017, the Bank received revenue from the loan transactions with a single client in the amount of UAH 205,207 thousand.

(in Hryvnias and in thousands)

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

30 June 2018	*Legal entities (corporate banking)*	*SMEs*	*Individuals (retail banking)*	*Financial institutions*	*Asset management and other*	*Total*
Income						
Interest income	2,027,335	146,088	179,690	52,321	1,619,217	**4,024,651**
Fee and commission income	125,808,	60,946	207,429	11,184	4,815	**410,182**
Change in allowance for impairment of loans	(113,243)	(11,367)	274,652	(5,071)	–	**144,971**
Result on initial recognition on loans to customers at fair value through profit or loss	–	2	–	–	–	**2**
Net gains on investments available for sale	–	–	–	–	4,497	**4,497**
Result on operations with derivative financial instruments	–	–	–	–	93,414	**93,414**
Net gains on investment property	–	–	–	–	10,527	**10,527**
Other income	14,001	9,827	39,119	296	1,128	**64,371**
Total incomes	**2,053,901**	**205,496**	**700,890**	**58,730**	**1,733,598**	**4,752,615**
Expense						
Interest expense	(1,533,245)	(188,581)	(648,513)	(42,499)	–	**(2,412,838)**
Fee and commission expense	(1,881)	(518)	(71,146)	–	(14,138)	**(87,683)**
Losses on initial recognition of financial assets	–	–	(2,261)	–	–	**(2,261)**
(Losses) from trading securities	–	–	–	–	(6,157)	**(6,157)**
Net (losses) on foreign exchange operations and precious metals	–	–	1,120	–	(295,439)	**(294,319)**
Staff costs	(157,610)	(86,230)	(285,843)	(19,550)	(12,702)	**(561,935)**
Depreciation and amortization	(24,371)	(14,378)	(89,054)	(4,554)	(1,794)	**(134,151)**
Change in allowance for impairment of other assets and other provisions	(68,756)	(76,271)	(334,707)	(15,141)	(8,786)	**(503,661)**
Other operating expense	(69,386)	(27,120)	(272,073)	(13,275)	(11,454)	**(393,308)**
Total expenses	**(1,855,249)**	**(393,098)**	**(1,702,477)**	**(95,019)**	**(350,470)**	**(4,396,313)**
Segment results	**198,652**	**(187,602)**	**(1,001,587)**	**(36,289)**	**1,383,128**	**356,302**
Income tax expense					(140,368)	**(140,368)**
Net profit					**1,242,760**	**215,934**
Segment assets	29,516,983	5,010,143	13,354,446	1,138,970	31,129,401	**80,149,943**
Segment liabilities	(47,390,249)	(4,859,938)	(19,036,354)	(3,082,629)	(290,006)	**(74,659,176)**
Other segment information						
Capital expenditures	11,657	5,667	31,898	1,255	1,472	**51,949**

(in Hryvnias and in thousands)

30 June 2017/ 31 December 2017	*Legal entities (corporate banking)*	*SMEs*	*Individuals (retail banking)*	*Financial institutions*	*Asset management and other*	*Total*
Income						
Interest income	1,510,823	75,955	112,107	44,532	1,418,434	**3,161,851**
Fee and commission income	87,323	43,939	159,186	11,680	6,487	**308,615**
Net gains on investments available for sale	–	–	–	–	25,600	**25,600**
Net gains from trading securities	–	–	–	–	4,949	**4,949**
Result on operations with derivative financial instruments	–	–	–	–	57,064	**57,064**
Net profit on investment property	–	–	–	–	4,305	**4,305**
Other income	23,968	9,006	40,762	1,464	1,430	**76,630**
Total incomes	**1,622,114**	**128,900**	**312,055**	**57,676**	**1,518,269**	**3,639,014**
Expense						
Interest expense	(1,356,272)	(93,869)	(713,269)	(38,992)	–	**(2,202,402)**
Fee and commission expense	(3,091)	–	(48,473)	(17,631)	–	**(69,195)**
Change in allowance for impairment of loans	(381,176)	47,645	148,953	(1,884)	–	**(186,462)**
Losses on initial recognition of financial assets	–	–	(2,864)	–	–	**(2,864)**
Net gains/(losses) on foreign exchange operations and precious metals	–	–	2,387	–	(131,451)	**(129,064)**
Staff costs	(95,709)	(53,427)	(219,863)	(7,177)	(12,353)	**(388,529)**
Depreciation and amortization	(14,728)	(7,313)	(48,207)	(1,431)	(1,161)	**(72,840)**
Change in allowance for impairment of other assets and other provisions	(121,734)	(184)	(930)	(2,121)	(27)	**(124,996)**
Other operating expense	(103,632)	(22,347)	(221,028)	(10,862)	(2,565)	**(360,434)**
Total expenses	**(2,076,342)**	**(129,495)**	**(1,103,294)**	**(80,098)**	**(147,557)**	**(3,536,786)**
Segment results	**(454,228)**	**(595)**	**(791,239)**	**(22,422)**	**1,370,712**	**102,228**
Income tax expense					(37,714)	**(37,714)**
Net profit					**1,332,998**	**64,514**
Segment assets	32,693,417	3,210,704	8,194,966	4,030,367	21,083,773	**69,213,227**
Segment liabilities	(39,749,593)	(4,575,395)	(16,881,915)	(1,956,707)	(424,304)	**(63,587,914)**
Other segment information						
Capital expenditures	9,135	4,484	57,588	920	605	**72,732**

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2018	*31 December 2017*
Current accounts with other credit institutions	7,879,392	520,048
Current accounts with the National Bank of Ukraine	4,495,040	1,242,025
Cash on hand	1,960,018	997,590
Overnight deposits in other banks	576,302	–
Time deposits with maturities over 90 days	367,803	–
Deposit certificates of the National Bank of Ukraine (overnight)	–	4,504,624
	15,278,555	**7,264,287**
Minus - expected credit losses	(6,857)	–
Cash and cash equivalents	**15,271,698**	**7,264,287**

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

As at 30 June 2018 obligatory reserves estimated in accordance with the requirements of the National Bank of Ukraine amounted to UAH 3,372,018 thousand (2017: UAH 2,941,682 thousand).

(in Hryvnias and in thousands)

As at 30 June 2018 and 31 December 2017, the Bank complied with the requirements of the National Bank of Ukraine regarding obligatory reserve amounts.

Changes in expected credit losses during the first half of 2018 were as follows:

	Stage 1
As at 1 January 2018	**11,000**
New assets	1,498
Repaid assets	(236)
Transfers to Stage 1	(5,405)
As at 30 June 2018	**6,857**

8. Due from credit institutions

Due from credit institutions comprise:

	30 June 2018	*31 December 2017*
Term deposits with maturities over 90 days or overdue	734,348	736,005
Other amounts due from credit institutions	323,394	249,842
Reverse repurchase agreements	319,225	280,469
Current accounts with other credit institutions	–	3,218,015
	1,376,967	**4,484,331**
Less: expected credit losses / allowance for impairment	(735,528)	(744,777)
Due from credit institutions	**641,439**	**3,739,554**

As at 30 June 2018, the overdue due from credit institutions equals in the amount of UAH 723,948 thousand (2017: UAH 734,959 thousand).

As at 30 June 2018, due from credit institutions in the amount of UAH 1,158,802 thousand (or 84.16% of the total amount of due from credit institution) was placed with three banks (2017: UAH 3,109,935 thousand with one banks, which was 69.35% of the total amount of due from credit institution).

As at 30 June 2018, reverse repurchase agreements were pledged as collateral of government bonds with fair value equals in the amount of UAH 350,440 thousand (2017: UAH 312,734 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 payments cards.

Changes in expected credit losses during the first half of 2018 were as follows:

	Stage 1	*Stage 2*	**Stage 3**	**Total**
As at 1 January 2018	**450**	**–**	**736,004**	**736,454**
New assets	1,179	–	–	1,179
Repaid assets	(450)	–	–	(450)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	(1,655)	(1,655)
Total impact of exposures transferred between stages	*–*	*–*	*(1,655)*	*(1,655)*
As at 30 June 2018	**1,179**	**–**	**734,349**	**735,528**

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

	6 months ended 30.06.2017
As at 1 January 2017	**758,575**
Accrued	1,884
As at 30 June 2017	**760,459**

(in Hryvnias and in thousands)

9. Derivative financial 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 not exceeding one month.

The Bank concludes contracts for the purchase of derivative financial instruments for hedging purposes, but these instruments do not qualify for hedge accounting.

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

	30 June 2018				***31 December 2017***			
	Notional amount		***Fair value***		***Notional amount***		***Fair value***	
	Assets	***Liabilities***	***Assets***	***Liabilities***	***Assets***	***Liabilities***	***Assets***	***Liabilities***
Foreign exchange contracts								
Swaps/forwards	1,902,751	(1,902,938)	1,883	(2,070)	1,291,357	(1,294,240)	869	(3,752)
Spots	2,177,996	(2,178,229)	2,192	(2,425)	71,220	(71,202)	41	(23)
Total derivative assets/(liabilities)			**4,075**	**(4,495)**			**910**	**(3,775)**

10. Loans to customers and financial leases

Loans to customers and financial leases comprise:

	30 June 2018	***31 December 2017***
Legal entities	29,419,289	34,097,305
SMEs	2,934,156	2,048,098
Individuals	6,189,671	5,907,660
Gross loans to customers and financial leases	**38,543,116**	**42,053,063**
Less: expected credit losses / allowance for impairment	(8,544,220)	(8,406,630)
Loans to customers and financial leases	**29,998,896**	**33,646,433**

As at 30 June 2018, the total amount of restructured loans that not overdue amounted to UAH 1,611,805 thousand (2017: UAH 1,641,731 thousand).

During the first half of 2018, the Bank has performed foreclosure of collateral for repayment of loans to customers. The amount of collateral, which was used for repayment of loans to customers was as follows:

- UAH 29,180 thousand were repaid by other property (2017: UAH 15,736 thousand).

(in Hryvnias and in thousands)

Expected credit losses / allowance for impairment of loans to customers and financial leases

Changes in expected credit losses were as follows:

Legal entities	***Stage 1***	***Stage 2***	**Stage 3**	**Total**
As at 1 January 2018	**322,733**	**498,503**	**3,760,702**	**4,581,938**
New assets	17,745	255,616	7,148	280,509
Repaid assets	(36,655)	(138,858)	(56,166)	(231,679)
Transfers to Stage 1	(181,043)	(175,739)	–	(356,782)
Transfers to Stage 2	219,022	(9,918)	(11,803)	197,301
Transfers to Stage 3	106,650	–	117,243	223,893
Total impact of exposures transferred between stages	*144,629*	*(185,657)*	*105,440*	*64,412*
Change in impaired interest	–	1,741	60,691	62,432
Written off	–	–	(234,795)	(234,795)
As at 30 June 2018	**448,452**	**431,345**	**3,643,020**	**4,522,817**

SMEs	***Stage 1***	***Stage 2***	**Stage 3**	**Total**
As at 1 January 2018	**15,197**	**1,274**	**95,224**	**111,695**
New assets	8,699	1,634	4,385	14,718
Repaid assets	(1,236)	(972)	(6,888)	(9,096)
Transfers to Stage 1	30	192	(42)	180
Transfers to Stage 2	4,327	(71)	–	4,256
Transfers to Stage 3	2,807	380	(1,878)	1,309
Total impact of exposures transferred between stages	*7,164*	*501*	*(1,920)*	*5,745*
Change in impaired interest	1	–	(338)	(337)
Written off	–	–	(10,140)	(10,140)
As at 30 June 2018	**29,825**	**2,437**	**80,323**	**112,585**

Individuals	***Stage 1***	***Stage 2***	**Stage 3**	**Total**
As at 1 January 2018	**5,603**	**1,940**	**4,501,627**	**4,509,170**
New assets	4,510	339	1,467	6,316
Repaid assets	147	(118)	(24,438)	(24,409)
Transfers to Stage 1	1,903	(744)	(10,360)	(9,201)
Transfers to Stage 2	1,031	74	(229)	876
Transfers to Stage 3	5,642	3,349	(254,784)	(245,793)
Total impact of exposures transferred between stages	*8,576*	*2,679*	*(265,373)*	*(254,118)*
Change in impaired interest	98	3	(2,891)	(2,790)
Written off	(371)	–	(324,980)	(325,351)
As at 30 June 2018	**18,563**	**4,843**	**3,885,412**	**3,908,818**

Reconciliation of the allowance for impairment of loans to customers and financial leases 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	381,176	(47,645)	(148,953)	**184,578**
Amounts written off	(7,701)	(9,348)	(16,427)	**(33,476)**
As at 30 June 2017	**3,687,859**	**146,311**	**4,051,789**	**7,885,959**

(in Hryvnias and in thousands)

Collateral

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

	30 June 2018				31 December 2017			
Type of collateral	*Loans to legal entities*	*SMEs*	*Loans to individuals*	*Total*	*Loans to legal entities*	*SMEs*	*Loans to individuals*	*Total*
Impaired loans								
Deposits	1,502	–	2	**1,504**	1,675	–	–	**1,675**
Real estate	1,363,096	78,366	622,572	**2,064,034**	788,861	75,919	201,466	**1,066,246**
Other assets	538,462	19,242	54,093	**611,797**	299,426	4,342	933	**304,701**
Unsecured	2,067,807	53,991	3,260,860	**5,382,658**	2,527,461	74,491	4,061,297	**6,663,249**
Total impaired loans	**3,970,867**	**151,599**	**3,937,527**	**8,059,993**	**3,617,423**	**154,752**	**4,263,696**	**8,035,871**
Loans with no signs of impairment								
Deposits	708,519	100,431	274	**809,224**	739,440	54,185	385	**794,010**
Real estate	12,719,248	1,450,140	745,125	**14,914,513**	11,809,383	927,733	700,589	**13,437,705**
Other assets	8,368,035	1,062,061	964,609	**10,394,705**	15,608,341	814,698	446,804	**16,869,843**
Unsecured	3,652,620	169,925	542,136	**4,364,681**	2,322,718	96,730	496,186	**2,915,634**
Total loans with no signs of impairment	**25,448,422**	**2,782,557**	**2,252,144**	**30,483,123**	**30,479,882**	**1,893,346**	**1,643,964**	**34,017,192**
Total	**29,419,289**	**2,934,156**	**6,189,671**	**38,543,116**	**34,097,305**	**2,048,098**	**5,907,660**	**42,053,063**

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 30 June 2018, other assets include movable property, goods in turnover, etc.

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

	30 June 2018				31 December 2017			
Types of clients	*In foreign currency*	*In national currency*	*Total*	*Impaired*	*In foreign currency*	*In national currency*	*Total*	*Impaired*
State entities	2,609,052	6,488,589	**9,097,641**	4,544	4,381,852	10,535,874	**14,917,726**	4,434
Corporate clients	10,751,310	9,607,179	**20,358,489**	4,150,353	11,295,194	7,935,851	**19,231,045**	3,612,988
Micro	50,668	423,240	**473,908**	31,513	450,694	345,553	**796,247**	88,951
SME	1,538,400	885,007	**2,423,407**	122,479	693,999	506,386	**1,200,385**	65,802
Individuals	3,474,849	2,714,822	**6,189,671**	4,254,241	3,796,194	2,111,466	**5,907,660**	4,263,696
Total	**18,424,279**	**20,118,837**	**38,543,116**	**8,563,130**	**20,617,933**	**21,435,130**	**42,053,063**	**8,035,871**

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

	30 June 2018			31 December 2017		
Types of clients	*Within one year*	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
State entities	8,335,062	762,579	**9,097,641**	14,089,015	828,711	**14,917,726**
Corporate clients	9,947,177	10,411,312	**20,358,489**	6,828,489	12,402,556	**19,231,045**
Micro	212,029	261,879	**473,908**	86,557	709,690	**796,247**
SME	782,905	1,640,502	**2,423,407**	150,807	1,049,578	**1,200,385**
Individuals	3,178,721	3,010,950	**6,189,671**	2,434,929	3,472,731	**5,907,660**
Total	**22,455,894**	**16,087,222**	**38,543,116**	**23,589,797**	**18,463,266**	**42,053,063**

As at 30 June 2018, loans to customers and financial leases in the amount of UAH 13,899,731 thousand are due from ten largest borrowers or groups of related counterparties of the Bank (36.06% of total loan portfolio) (2017: UAH 18,646,272 thousand or 44.34%).

(in Hryvnias and in thousands)

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

	30 June 2018	***31 December 2017***
Electricity	7,395,769	9,999,455
Individuals	6,189,672	5,907,660
Gas transportation	5,374,319	6,084,630
Agriculture and food processing	5,122,314	4,962,347
Trade	3,880,277	4,420,899
Manufacturing	3,121,781	3,160,044
Real estate	2,899,208	2,868,251
Services	2,411,271	2,402,605
Construction	924,162	543,085
Metallurgy	708,443	1,133,544
Transport	405,785	463,726
Financing services	72,113	72,739
Other	38,002	34,078
Total	**38,543,116**	**42,053,063**

As at 30 June 2018 and 31 December 2018, loans to customers including financial lease agreements for the acquisition of vehicles and equipment by the Bank's customers in the amount of UAH 243,137 thousand and UAH 55,161 thousand, respectively, as presents in the following table:

	30.06.2018			***31.12.2017***		
	Legal entities	***SMEs***	***Total***	***Legal entities***	***SMEs***	***Total***
Within one year						
Loans to customers by agreements of financial leases	–	64,523	**64,523**	–	–	**–**
Less – allowance for impairment	–	(427)	**(427)**	–	–	**–**
Short-term loans to customers by agreements of financial leases	**–**	**64,097**	**64,097**	**–**	**–**	**–**
More than one year						
Loans to customers by agreements of financial leases	61,767	67,152	**128,919**	–	39,033	**39,033**
Less – allowance for impairment	(1,033)	(494)	**(1,527)**	–	–	**–**
Long-term loans to customers by agreements of financial lease	**60,734**	**66,658**	**127,392**	**–**	**39,033**	**39,033**
Total loans to customers by agreements of financial leases	**60,734**	**130,755**	**191,489**	**–**	**39,033**	**39,033**

The following table presents the structure of collateral for loans to customers by agreements of financial leases in the following industries and the Bank's operating segments:

	30.06.2018		***31.12.2017***	
	Legal entities	***SMEs***	***Legal entities***	***SMEs***
Manufacturing	–	7,655	–	–
Services	83,158	5,633	–	–
Transport	–	191,474	–	55,161
	83,158	**204,763**	**–**	**55,161**

(in Hryvnias and in thousands)

11. Investments available for sale

Investments available for sale comprise:

	30 June 2018	*31 December 2017*
Government bonds	19,282,297	19,675,154
Deposit certificates issued by the National Bank of Ukraine	10,332,929	–
State mortgage institution	882,911	890,190
Corporate shares	11,320	11,319
Investments available for sale	**30,509,457**	**20,576,663**

As at 30 June 2018, total accumulated impairment loss recognized in respect of investments available for sale amounted to UAH 28,764 thousand (2017: UAH 59,380 thousand).

As at 30 June 2018, corporate bonds with the fair value of UAH 680,775 thousand (2017: UAH 690,132 thousand) were used as a collateral of long-term borrowings from the National Bank of Ukraine (Note 16).

As at 30 June 2018, government bonds with the fair value of UAH 376,290 thousand (2017: UAH 381,663 thousand) were used as a collateral to secure a long-term borrowing from one credit institution (Note 17).

12. Assets held for sale

As at 30 June 2018, assets held for sale with the carrying amounts of UAH 14,845 thousand (2017: UAH 60,508 thousand) were received as repayment of debts from the Bank's customers:

	Land	*Non-residential property*	*Residential property*	*Ownership rights on real estate*	*Movables*	*Total*
Carrying value						
As at 1 January 2018	**3,091**	**13,427**	**43,648**	**–**	**342**	**60,508**
Sale	(1,891)	(2,827)	(40,945)	–	–	**(45,663)**
As at 30 June 2018	**1,200**	**10,600**	**2,703**	**–**	**342**	**14,845**

	Land	*Non-residential property*	*Residential property*	*Ownership rights on real estate*	*Movables*	*Total*
Carrying value						
As at 1 January 2017	**366,527**	**594,657**	**130,529**	**36,706**	**890**	**1,129,309**
Additions	3,040	34,921	2,703	–	343	**41,007**
Reclassification to "Property and equipment and intangible assets"	(113,481)	(283,925)	–	–	(890)	**(398,296)**
Reclassification to "Other property"	(183,142)	(289,682)	(58,502)	(36,706)	–	**(568,032)**
Revaluation	(11,027)	(22,864)	(151)	–	–	**(34,042)**
Sale	(58,826)	(19,680)	(30,932)	–	–	**(109,438)**
As at 31 December 2017	**3,091**	**13,427**	**43,647**	**–**	**343**	**60,508**

(in Hryvnias and in thousands)

13. Taxation

Income tax expenses comprises:

	6 months ended 30.06.2018	*6 months ended 30.06.2017*
Changes in deferred taxes – origination and reversal of temporary differences	140,368	37,714
Income tax expenses	**140,368**	**37,714**

Reconciliation of the income tax expenses based on the current tax rates and actual income tax expense is as follows:

	6 months ended 30.06.2018	*6 months ended 30.06.2017*
Profit before income tax	**356,302**	**102,228**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**64,134**	**18,401**
Non-deductible expense for taxation	101,035	30,871
Adjustments of the tax base due to reassessment of temporary differences and changes in laws	1,418	3,039
Changes in unrecognized deferred tax assets	(26,219)	(14,597)
Income tax expenses	**140,368**	**37,714**

As at 30 June 2018 and 31 December 2017, deferred tax assets and liabilities and their movements for the respective periods were as follows:

	Origination and reversal of temporary differences		*6 months ended 30.06.2018*	*Origination and reversal of temporary differences*		*6 months ended 30.06.2017*
	In profit or loss	*In equity*		*In profit or loss*	*In equity*	
Tax effect of non-taxable temporary differences						
Accruals and provisions	–	–	–	27,165	–	(27,166)
Property and equipment and intangible assets	2,664	–	47,216	(3,249)	–	23,041
Unused vacations accrual	–	–	–	(1,175)	–	–
Tax losses carried forward	(169,251)	–	308,188	(75,052)	–	625,628
Deferred tax assets/(liabilities), gross	**(166,587)**	**–**	**355,404**	**(52,311)**	**–**	**621,503**
Unrecognized deferred tax asset	26,219	–	(308,188)	14,597	–	(576,656)
Deferred tax assets/(liabilities)	**(140,368)**	**–**	**47,216**	**(37,714)**	**-**	**44,847**
Deferred tax assets/(liabilities), net	**(140,368)**	**–**	**47,216**	**(37,714)**	**–**	**44,847**

Preparation and provision of financial statements and tax returns for corporate income tax occurs at different periods. Consequently, financial and tax accountings may have minor differences. These differences will be reflected in the tax accounting in the next reporting 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)

14. Allowance for impairment of other assets and other provisions

	Other assets	*Provisions for legal risks*	*Total*
As at 31 December 2017	**759,061**	**7,669**	**766,730**
Accrued / (reversed)	8,867	96,169	**105,036**
Restoration	2,332	–	**2,332**
Amounts written off	(33)	–	**(33)**
As at 30 June 2018	**770,227**	**103,838**	**874,065**

The reserve for legal risks relates to other property of the Bank, the ownership rights of which are likely to be lost, and claims for which it is probable that the Bank will incur losses.

	Other assets	*Guarantees and commitments*	*Total*
As at 31 December 2016	**426,921**	**60,504**	**487,425**
Accrued	2,416	122,580	**124,996**
Amounts written off	(5)	–	**(5)**
As at 30 June 2017	**429,332**	**183,084**	**612,416**

Changes in expected loss on guarantees and contractual obligations were as follows:

Guarantees and commitments	***Stage 1***	***Stage 2***	**Stage 3**	**Total**
As at 1 January 2018	**5,164**	**22,736**	**221,519**	**249,419**
New guarantees / obligations	1,860	458,991	4,252	465,103
Guarantees / Liabilities that expired	(227)	(13,038)	(36,278)	(49,543)
Transfers to Stage 1	(605)	–	–	(605)
Transfers to Stage 2	(1,795)	30,189	(16)	28,378
Transfers to Stage 3	–	(23)	(36,927)	(36,950)
Total impact of exposures transferred between stages	*(2,400)*	*30,166*	*(36,943)*	*(9,177)*
As at 30 June 2018	**4,397**	**498,855**	**152,550**	**655,802**

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

(in Hryvnias and in thousands)

15. Other assets and liabilities

Other assets comprise:

	30 June 2018	***31 December 2017***
Receivables for securities	594,546	578,266
Receivables for financial leases	199,977	34,091
Prepayments	141,505	159,389
Clearing payments for payment cards	120,214	102,364
Receivable for property rights	97,621	100,001
Other income accrued	58,577	44,832
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	49,003	51,081
Other receivables for operations with banks	36,044	38,071
Inventories	26,714	22,679
Receivables for operations with credit cards	16,193	163,969
Receivables from employees	2,058	2,047
Taxes recoverable, other than income tax	373	466
Other	3,902	17,209
	1,346,727	**1,314,465**
Less: allowance for impairment of other assets (Note 14)	(770,227)	(730,809)
Other assets	**576,500**	**583,656**

Other liabilities comprise:

	30 June 2018	***31 December 2017***
Obligations under a financial leases	200,881	35,053
Accruals for unused vacations	102,817	86,342
Payables on operations with clients	95,062	44,157
Payables to Individual Deposits Guarantee Fund	31,929	29,768
Payables on operations with clients on the purchase and sale of foreign currency, bank and precious metals	28,426	58,508
Accounts payable for taxes and compulsory payments, except for income tax	25,842	35,955
Rent of premises	8,590	8,298
Accrued expenses for settlement and cash services	8,260	11,355
Repair and maintenance of property and equipment and intangible assets	6,188	4,845
Retention of premises	3,540	2,744
Connection services	3,518	3,354
Payables to plastic cards transactions processing center	3,071	1,486
Payables on operations with plastic cards	1,944	75
Rewarding partners for attracting clients	1,279	2,408
Accounts payable for payments to employees	1,242	825
Accounts payable for operations with banks	1,031	156
Accounts payable for acquiring assets	371	6,423
Other	33,243	35,843
Other liabilities	**557,234**	**367,595**

(in Hryvnias and in thousands)

16. Due to the National Bank of Ukraine

Borrowings from the National Bank of Ukraine comprise:

	Maturity	*30 June 2018*	*31 December 2017*
Long-term refinancing borrowings from the National Bank of Ukraine	31 August 2018	50,392	207,459
	30 April 2019	212,103	206,645
Total long-term borrowings from the National Bank of Ukraine		**262,495**	**414,104**

As at 30 June 2018, the interest rate for the due to the National Bank of Ukraine was 7.0% per annum (2017: 7.0% per annum).

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 30 June 2018, the discount rate of the National Bank of Ukraine amounted to 17.0% (2017: 14.5%).

17. Due to credit institutions

Due to credit institutions comprises:

	30 June 2018	*31 December 2017*
Term deposits and loans	1,665,706	385,888
Correspondent accounts	1,339,768	1,520,590
Other due to credit institutions	42,132	40,452
Due to credit institutions	**3,047,606**	**1,946,930**

As at 30 June 2018, due to credit institutions include balances in the amount of UAH 1,548,183 thousand (50.80%) that were placed by three banks (2017: balances in the amount of UAH 1,078,729 thousand (55.41%that were placed by two banks).

As at 30 June 2018, long-term borrowing received from one credit institution was secured by government bonds with the fair value of UAH 376,290 thousand (2017: UAH 381,663 thousand) (Note 11).

18. Due to customers

Due to customers comprise:

	30 June 2018	*31 December 2017*
Current accounts		
- Legal entities	30,780,479	27,791,704
- Individuals	3,838,108	3,706,143
- Budget organizations	215,828	140,369
	34,834,415	**31,638,216**
Time deposits		
- Legal entities	15,120,236	16,048,185
- Individuals	14,428,046	12,959,717
- Budget organizations	5,645,009	–
	35,193,291	**29,007,902**
Due to customers	**70,027,706**	**60,646,118**

As at 30 June 2018, due to customers in the amount of UAH 26,972,255 thousand (38.52%) included due to ten biggest customers of the Bank (2017: UAH 22,083,988 thousand (36.41%)).

(in Hryvnias and in thousands)

Due to customers by industry are summarized as follows:

	30 June 2018	*31 December 2017*
Services	24,525,249	12,648,426
Individuals	18,266,154	16,665,860
Transport	8,189,567	11,589,052
Energy	3,698,778	2,650,078
Manufacturing	2,231,681	3,033,086
Trade	2,213,145	2,365,471
Insurance	1,829,657	2,000,632
Agriculture and food industry	1,296,764	1,152,159
Metallurgy	1,105,661	1,416,038
Financing services	1,075,466	1,465,247
Construction	810,855	880,916
Other	4,784,729	4,779,153
Due to customers	**70,027,706**	**60,646,118**

As at 30 June 2018, category "Other" includes funds of non-resident legal entities of UAH 4,639,404 thousand (2017: UAH 4,643,559 thousand).

As at 30 June 2018, loans to customers were secured by amounts due to customers of UAH 810,728 thousand (2017: UAH 795,685 thousand.) (Note 10).

As at 30 June 2018, amounts due to customers were pledged for secured financial commitments and contingencies in amount of UAH 1,900,090 thousand (2017: UAH 1,896,871 thousand) (Note 20).

19. Equity

Share capital

As at 30 June 2018, authorized issued share capital comprised 13,836,522,922 ordinary shares and 477,078 preferred shares (2017: 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 in case of liquidation of the Bank, to receive part of the property of the Bank or its value in proportion to the value of the shares owned by the Bank in the order and in accordance with the procedure stipulated by the legislation of Ukraine and the Bank's charter. 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:

	Number of shares, thousands of units		*Nominal value, UAH thousands*		*Nominal value, UAH thousands*	*Total, UAH thousands*
	Ordinary	*Preferred*	*Ordinary*	*Preferred*		
As at 31 December 2016	**13,836,523**	**477**	**13,836,523**	**477**	**13,837,000**	**13,837,000**
Issued and registered shares	–	–	–	–	–	–
As at 31 December 2017	**13,836,523**	**477**	**13,836,523**	**477**	**13,837,000**	**13,837,000**
Issued and registered shares	–	–	–	–	–	–
As at 30 June 2018	**13,836,523**	**477**	**13,836,523**	**477**	**13,837,000**	**13,837,000**

(in Hryvnias and in thousands)

Movements in other reserves

Movements in other reserves were as follows:

	Property and equipment revaluation reserve	***Revaluation reserve for investments available for sale***	***Total***
As at 31 December 2016	**360,907**	**232,508**	**593,415**
Revaluation of property and equipment	(8,935)	–	**(8,935)**
Income tax associated with revaluation of property and equipment	1,608	–	**1,608**
Losses on investments available for sale	–	(293,078)	**(293,078)**
Transfers on disposal of assets	(14,586)	–	**(14,586)**
As at 31 December 2017	**338,994**	**(60,570)**	**278,424**
Transfers on disposal of assets	(1,052)	–	(1,052)
Net losses from investments available for sale	–	(302,158)	(302,158)
Adjustments to the equivalent of revaluation of IFRS 9 for securities nominated in foreign currency and other reclassifications	–	(33,167)	(33,167)
As at 30 June 2018	**337,942**	**(395,895)**	**(57,953)**

20. 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. (Note 14).

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 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 certainties exist 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 30 June 2018, 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 30 June 2018 and 31 December 2017, contractual commitments and contingencies were as follows:

	30 June 2018	***31 December 2017***
Credit related commitments of the Bank		
Loan commitments	3,629,829	3,000,000
Guarantees	3,335,482	3,064,056
Letters of credit	1,114,627	1,149,618
Promissory note guarantees	15,387	–
Total	**8,095,325**	**7,213,674**

As at 30 June 2018 and 31 December 2017, loan commitments are represented by revocable commitments to the Bank's strategic customers.

As at 30 June 2018, total provisions recognized in respect of the Bank's commitments amounted to UAH 655,802 thousand (2017: UAH 201,583 thousand) (Note 14).

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As at 30 June 2018, commitments and contingencies were secured by cash collateral in the amount of UAH 1,900,090 thousand (2017: UAH 1,896,871 thousand) (Note 18).

21. Net fee and commission income

Net fee and commission income comprises:

	6 months ended 30.06.2018	*6 months ended 30.06.2017*
Settlements operations	275,254	221,298
Agency operations in the foreign exchange market	53,238	34,946
Guarantees and letters of credit	37,631	25,819
Operations with securities	1,758	1,187
Other	42,301	25,364
Fee and commission income	**410,182**	**308,614**
Settlements operations	(79,533)	(63,122)
Guarantees and letters of credit	(3,328)	(5,020)
Agency operations in the foreign exchange market	(751)	(1,043)
Other	(4,071)	(9)
Fee and commission expense	**(87,683)**	**(69,194)**
Net fee and commission income	**322,499**	**239,420**

22. Net (losses)/gains on trading securities

Net (losses)/gains on trading securities that are recognized in the statement of profit or loss and other comprehensive income comprise:

	6 months ended 30.06.2018	*6 months ended 30.06.2017*
Net gains from operations with trading securities	–	423
(Losses)/gains on revaluation of trading securities	(6,157)	4,526
Net (losses)/gains on trading securities	**(6,157)**	**4,949**

23. 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:

	6 months ended 30.06.2018	*6 months ended 30.06.2017*
Net gains from operations with investments available for sale	7,020	26,205
Recovery of impairment of investments available for sale	(2,523)	(605)
Net gains on investments available for sale	**4,497**	**25,600**

24. Net (losses) on foreign exchange operations and precious metals

Net (losses) on foreign exchange operations and precious metals comprise:

	6 months ended 30.06.2018	*6 months ended 30.06.2017*
Net (losses)/gains from dealing operations	(24,386)	47,250
(Losses) from translation differences	(269,932)	(176,314)
Net (losses) from operations with foreign exchange and precious metals	**(294,319)**	**(129,064)**

(in Hryvnias and in thousands)

25. Other income

	6 months ended 30.06.2018	*6 months ended 30.06.2017*
Fees from insurance companies and banks	32,956	7,545
Repayment of purchased impaired financial assets	8,640	1,069
Compensation costs for utilities of premises leased	4,865	1,657
Penalties received	4,090	6,869
Positive result from sale of assets held for sale and other property	2,977	50,323
Positive result from sale of property and equipment and intangible assets	1,840	398
Recovery of litigation expenses	1,813	325
Income from early repayment of customers term deposits	1,267	534
Revenue from acquired ownership of due to customers	737	696
Recovery of registration costs	461	199
Recovery of previously written-off assets	455	666
Fees for rental of deposit boxes	–	2,122
Other	4,270	4,227
Total other income	**64,371**	**76,630**

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 "Gain from acquired ownership of client funds" shows clients' funds that the Bank recognized as income in accordance with the Civil Code of Ukraine, because of the expiration of ownership of the balances.

26. Staff costs and other operating expense

Staff costs and other operating expense comprise:

	6 months ended 30.06.2018	*6 months ended 30.06.2017*
Salaries and bonuses	457,456	329,114
Charges on payroll	78,981	59,313
Other staff costs	25,498	102
Staff costs	**561,935**	**388,529**
Payments to the Individual Deposit Guarantee Fund	61,990	53,535
Repairs and maintenance of property and equipment	60,751	50,482
Communications	47,964	47,897
Office supplies	43,789	11,848
Professional services	42,000	45,727
Lease and maintenance of premises	23,793	16,836
Taxes, other than income tax	23,554	21,866
Charity	20,764	13,532
Software support	17,458	10,909
Security	12,053	9,535
Reward to partners for attraction of customers	7,453	37,745
Expenses for the accumulation of values	6,018	6,432
Business trips	4,314	2,597
Marketing and advertising	2,741	3,098
Costs of enforcement of judgments	–	11,779
Other	18,666	16,616
Other operating expense	**393,308**	**360,434**

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27. Risk management

The Bank's risk management system is based on its size, business model, scale of activity, types and complexity of operations. The risk management system includes: risk identification, risk assessment, mitigation and limitation or risk avoidance, risk monitoring and control, stress testing, capital adequacy assessment and liquidity.

Risk management structure

Supervisory Board

The Supervisory Board defines and approves the strategy of risk management, credit policy, individual risk management policies, the plan for ensuring continuous activity, the plan for financing crisis situations, determines the risk appetite and sets the limits of risk, monitors the effectiveness of the operation of the risk management system, recognizes the sources of capitalization and other Bank financing.

Risk Management Committee of the Supervisory Board

The Risk Management Committee of the Supervisory Board ensures the availability and maintenance in the current state of the internal regulation acts regulating the risk management process and the Bank's credit policy, regularly monitors and analyzes the current risk profile adopted by the Bank, monitors the compliance with the risk limits established by Supervisory board.

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.

Collegial strictures of the Board

Credit Council, Credit Committee, Committee for Methodological Support for Retail, Small and Microbusiness Risk Management, Commission for Problem Borrowing of Borrowers, Commission for monitoring credit operations of clients, credit commissions for directories manage credit risk within the limits of powers delegated by the Management Board.

The Assets and Liabilities Management Committee manages the liquidity risk, interest rate risk and market risk within the limits of the powers delegated by the Management Board.

The Operational Risk Management Committee manages the operational risk within the limits of the powers delegated by the Management Board.

The Information Security Management Committee manages information risk as a component of operational risk within the limits of the powers delegated by the Management Board.

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 appetite and marginal risk indicators

The Supervisory Board at least once a year with the approval of the annual financial plan (budget) of the Bank, or more often, if necessary, approves the risk appetite of the Bank as a set of thresholds for each type of risk.

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 Supervisory Board approved the Credit Policy, which defines the main lines of lending and regulates the basic

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principles and conditions for the acceptance of credit risk. To manage the risk of concentration of the loan portfolio, the Bank monitors the structure of loan portfolio and, if necessary, establishes appropriate limits.

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

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

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

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

The credit rating of Ukraine, according to the international rating agencies, as at 30 June 2018, corresponded to a speculative level of CCC (2017: CCC).

Investments available for sale, in particular government 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.

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

	uaAAA – A-	***uaBBB – B-***	***Lower than B-***	***Unrated***	***30 June 2018***
Cash and cash equivalents (other than cash on hand)	911,892	7,497,307	4,900,136	9,202	**13,318,537**
Due from credit institutions	206,889	33,613	81,713	319,224	**641,439**
Derivative financial assets	–	3,520	–	555	**4,075**
Trading securities	–	–	288,920	–	**288,920**
Investments available for sale	8	–	30,506,348	3,101	**30,509,457**

	uaAAA – A-	***uaBBB – B-***	***Lower than B-***	***Unrated***	***31 December 2017***
Cash and cash equivalents (other than cash on hand)	–	–	6,266,697	–	**6,266,697**
Due from credit institutions	1,164,003	2,241,627	100	333,824	**3,739,554**
Derivative financial assets	–	50	–	860	**910**
Trading securities	–	–	315,094	–	**315,094**
Investments available for sale	7	–	20,573,555	3,101	**20,576,663**

(in Hryvnias and in thousands)

Geographical concentration

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

	30 June 2018			
	Ukraine	*OECD countries*	*CIS and other foreign banks*	*Total*
Assets				
Cash and cash equivalents	6,889,591	8,353,453	28,654	**15,271,698**
Precious metals	2,194	–	–	**2,194**
Due from credit institutions	422,171	219,268	–	**641,439**
Derivative financial assets	4,075	–	–	**4,075**
Loans to customers and financial leases	29,998,896	–	–	**29,998,896**
Trading securities	288,920	–	–	**288,920**
Investments available for sale	30,509,449	8	–	**30,509,457**
Other assets	39,084	–	–	**39,084**
	68,154,380	**8,572,729**	**28,654**	**76,755,763**
Liabilities				
Due to the National Bank of Ukraine	262,495	–	–	**262,495**
Due to credit institutions	1,819,448	1,228,158	–	**3,047,606**
Derivative financial liabilities	4,495	–	–	**4,495**
Due to customers	70,027,706	–	–	**70,027,706**
Provisions for guarantees and commitments	759,640	–	–	**759,640**
Other liabilities	315,625	–	–	**315,625**
	73,189,409	**1,228,158**	–	**74,417,567**
Difference between assets and liabilities	**(5,035,029)**	**7,344,571**	**28,654**	**2,338,196**

	31 December 2017			
	Ukraine	*OECD countries*	*CIS and other foreign banks*	*Total*
Assets				
Cash and cash equivalents	7,264,287	–	–	**7,264,287**
Precious metals	7,958	–	–	**7,958**
Due from credit institutions	352,773	3,318,528	68,253	**3,739,554**
Derivative financial assets	910	–	–	**910**
Loans to customers and financial leases	33,646,433	–	–	**33,646,433**
Trading securities	315,094	–	–	**315,094**
Investments available for sale	20,576,656	7	–	**20,576,663**
Other assets	189,054	–	–	**189,054**
	62,353,165	**3,318,535**	**68,253**	**65,739,953**
Liabilities				
Due to the National Bank of Ukraine	414,104	–	–	**414,104**
Due to credit institutions	1,946,930	–	–	**1,946,930**
Derivative financial liabilities	3,775	–	–	**3,775**
Due to customers	60,646,118	–	–	**60,646,118**
Provisions for guarantees and commitments	209,392	–	–	**209,392**
Other liabilities	73,822	–	–	**73,822**
	63,294,141	–	–	**63,294,141**
Difference between assets and liabilities	**(940,976)**	**3,318,535**	**68,253**	**2,445,812**

(in Hryvnias and in thousands)

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.

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 29.

The tables below summarize the information on undiscounted cash flows of financial liabilities as at 30 June 2018 and 31 December 2017 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 30 June 2018	***Up to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Due to the National Bank of Ukraine	85,387	192,045	–	–	**277,432**
Due to credit institutions	1,759,435	71,486	1,332,904	–	**3,163,825**
Gross settled derivative financial instruments:					
- amounts payable	(2,382,523)	–	–	–	**(2,382,523)**
- amounts receivable	2,387,018	–	–	–	**2,387,018**
Due to customers	54,787,789	15,164,028	896,678	132,115	**70,980,610**
Other liabilities	315,625	–	–	–	**315,625**
Total undiscounted financial liabilities	**56,952,731**	**15,427,559**	**2,229,582**	**132,115**	**74,741,987**

Financial liabilities as at 31 December 2017	***Up to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Due to the National Bank of Ukraine	87,181	254,503	108,811	–	**450,495**
Due to credit institutions	1,695,756	13,034	284,447	–	**1,993,237**
Gross settled derivative financial instruments:					
- amounts payable	(1,139,386)	–	–	–	**(1,139,386)**
- amounts receivable	1,143,162	–	–	–	**1,143,162**
Due to customers	47,746,975	12,845,605	824,711	82,208	**61,499,499**
Other liabilities	73,822	–	–	–	**73,822**
Total undiscounted financial liabilities	**49,607,510**	**13,113,142**	**1,217,969**	**82,208**	**64,020,829**

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***	***More than 5 years***	***Total***
30 June 2018	1,446,073	5,869,562	711,811	67,879	**8,095,325**
31 December 2017	1,353,100	5,160,700	538,584	161,290	**7,213,674**

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

(in Hryvnias and in thousands)

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 collegial body 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.

Interest rate risk

Interest rate risk is the actual or potential risk to the Bank's earnings and capital arising from adverse changes in interest rates on the market. This risk affects both the profitability of the Bank and the economic value of its assets, liabilities and off-balance sheet instruments. The table below shows the sensitivity to possible changes in interest rates, with the unchangeable value of all other variables of statement of profit or loss and other comprehensive income of the Bank.

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 of revaluation maturity gaps)

	30 June 2018					
	Up to 1 month	***From 1 to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Assets	28,347,886	5,786,566	22,608,018	13,509,240	4,757,087	**75,008,797**
Liabilities	47,493,709	8,220,179	15,372,034	2,194,870	57,015	**73,337,807**
Difference between assets and liabilities	**(19,145,823)**	**(2,433,613)**	**7,235,984**	**11,314,370**	**4,700,072**	**1,670,990**
1%	(183,590)	(20,269)	27,160			**(176,699)**
-1%	183,590	20,269	(27,160)			**176,699**

	30 June 2017					
	Up to 1 month	***From 1 to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Assets	13,382,150	3,577,374	22,455,800	17,095,966	4,988,815	**61,500,105**
Liabilities	39,417,505	5,937,299	13,322,066	1,034,859	32,172	**59,743,901**
Difference between assets and liabilities	**(26,035,355)**	**(2,359,925)**	**9,133,734**	**16,061,107**	**4,956,643**	**1,756,204**
1%	(249,654)	(19,655)	34,283			**(235,027)**
-1%	249,654	19,655	(34,283)			**235,027**

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.

(in Hryvnias and in thousands)

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 30 June 2018 are as follows:

	UAH	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	5,304,337	6,509,496	3,206,649	251,216	**15,271,698**
Precious metals	–	–	–	2,194	**2,194**
Due from credit institutions	400,937	12,471	206,889	21,142	**641,439**
Loans to customers and financial leases	15,680,366	7,235,126	7,083,404	–	**29,998,896**
Trading securities	338	288,582			**288,920**
Investments available for sale	22,820,652	6,716,727	972,078	–	**30,509,457**
Investment property	377,021	–	–	–	**377,021**
Property and equipment and intangible assets	1,641,721	–	–	–	**1,641,721**
Assets held for sale	14,845	–	–	–	**14,845**
Other property	771,040	–	–	–	**771,040**
Current income tax assets	4,921	–	–	–	**4,921**
Deferred income tax assets	47,216	–	–	–	**47,216**
Other assets	551,064	12,519	12,917	–	**576,500**
Total assets	**47,614,458**	**20,774,921**	**11,481,937**	**274,552**	**80,145,868**
Liabilities					
Amounts due to National Bank of Ukraine	262,495	–	–	–	**262,495**
Due to credit institutions	257,727	865,786	1,887,560	36,533	**3,047,606**
Due to customers	40,761,556	21,161,289	7,968,055	136,806	**70,027,706**
Provisions for guarantees and commitments	614,314	11,093	134,233	–	**759,640**
Other liabilities	487,158	52,537	16,580	959	**557,234**
Total liabilities	**42,383,250**	**22,090,705**	**10,006,428**	**174,298**	**74,654,681**
Net long/(short) recognized position	**5,231,208**	**(1,315,784)**	**1,475,509**	**100,254**	
Off-balance items					
Assets receivable	654,835	2,649,743	1,103,226	30,439	**4,438,243**
Assets payable	(179,478)	(1,497,467)	(2,616,183)	(121,164)	**(4,414,292)**
Net long/(short) unrecognized position	**475,357**	**1,152,276**	**(1,512,957)**	**(90,725)**	
Total long/(short) recognized and unrecognized position	**5,706,565**	**(163,508)**	**(37,448)**	**9,529**	

(in Hryvnias and in thousands)

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

	UAH	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	6,405,125	696,893	148,614	13,655	**7,264,287**
Precious metals	–	–	–	7,958	**7,958**
Due from credit institutions	309,426	2,826,203	339,701	264,224	**3,739,554**
Loans to customers and financial leases	17,748,295	10,156,133	5,742,005	–	**33,646,433**
Trading securities	347	314,747	–		**315,094**
Investments available for sale	9,421,464	9,671,266	1,483,933	–	**20,576,663**
Investment property	348,834	–	–	–	**348,834**
Property and equipment and intangible assets	1,736,061	–	–	–	**1,736,061**
Assets held for sale	60,508	–	–	–	**60,508**
Other property	740,764	–	–	–	**740,764**
Current income tax assets	4,921	–	–	–	**4,921**
Deferred income tax assets	187,584	–	–	–	**187,584**
Other assets	515,526	52,417	15,713	–	**583,656**
Total assets	**37,478,855**	**23,717,659**	**7,729,966**	**285,837**	**69,212,317**
Liabilities					
Amounts due to National Bank of Ukraine	414,104	–	–	–	**414,104**
Due to credit institutions	250,048	1,287,794	340,997	68,091	**1,946,930**
Due to customers	31,720,689	21,561,912	7,202,229	161,288	**60,646,118**
Provisions for guarantees and commitments	13,140	–	196,252	–	**209,392**
Other liabilities	345,231	9,041	10,661	2,662	**367,595**
Total liabilities	**32,743,212**	**22,858,747**	**7,750,139**	**232,041**	**63,584,139**
Net long/(short) recognized position	**4,735,643**	**858,912**	**(20,173)**	**53,796**	
Off-balance items					
Assets receivable	961,247	185,442	208,342	7,546	**1,362,577**
Assets payable	(93,674)	(1,086,693)	(98,945)	(86,130)	**(1,365,442)**
Net long/(short) unrecognized position	**867,573**	**(901,251)**	**109,397**	**(78,584)**	
Total long/(short) recognized and unrecognized position	**5,603,216**	**(42,339)**	**89,224**	**(24,788)**	

The tables below indicate the currencies to which the Bank had significant exposure as at 30 June 2018 and 2017 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 decrease in profit or in equity while a positive amount reflects a net potential increase in profit or in equity.

Currency	*Increase in foreign currency exchange rate % 30 June 2018*	*Effect on profit before tax 30 June 2018*	*Increase in foreign currency exchange rate % 30 June 2017*	*Effect on profit before tax 30 June 2017*
USD	14.00%	(22,891)	53.00%	(14,423)
EUR	22.00%	(8,239)	53.00%	(89,735)

Currency	*Decrease in foreign currency exchange rate % 30 June 2018*	*Effect on profit before tax 30 June 2018*	*Decrease in foreign currency exchange rate % 30 June 2017*	*Effect on profit before tax 30 June 2017*
USD	-10.00%	16,351	-13.00%	(3,538)
EUR	-9.00%	3,370	-15.00%	25,397

(in Hryvnias and in thousands)

28. 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. 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.

The Bank uses the following hierarchy for determining and disclosing the fair value of assets and liabilities 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.

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

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.
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.

The following table summarizes assets and liabilities recognized at fair value on initial recognition using a three level fair value hierarchy:

	30 June 2018			
	Level 1	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Trading securities	–	288,920	–	**288,920**
Investments available for sale	8	30,498,137	11,312	**30,509,457**
Derivative financial assets	–	4,075	–	**4,075**
Total	**8**	**30,791,132**	**11,312**	**30,802,452**
Liabilities measured at fair value				
Derivative financial liabilities	–	4,495	–	**4,495**
Total	**–**	**4,495**	**–**	**4,495**

(in Hryvnias and in thousands)

	31 December 2017			
	Level 1	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Trading securities	–	315,094	–	**315,094**
Investments available for sale	7	20,565,344	11,312	**20,576,663**
Derivative financial assets	–	910	–	**910**
Total	**7**	**20,881,348**	**11,312**	**20,892,667**
Liabilities measured at fair value				
Derivative financial liabilities	–	3,775	–	**3,775**
Total	**–**	**3,775**	**–**	**3,775**

Movements in Level 3 financial instruments measured at fair value

During the first half of 2018, there were no changes in the amounts of assets and liabilities, which are measured at fair value in Level 3.

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	***Expenses recognized in profit and loss***	***As at 31 December 2017***
Investments available for sale	11,312	–	11,312

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 30 June 2018		***As at 31 December 2017***	
	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.

Cash and cash equivalents and due from credit institutions comprise by balances on correspondent accounts and short-term placements. 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 cash and cash equivalents, 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.

(in Hryvnias and in thousands)

Financial assets/ financial liabilities	*Fair value hierarchy*	*Valuation technique(s) and key input(s)*
Loans to customers and financial leases	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.

	30 June 2018			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	15,271,698	–	–	**15,271,698**
Due from credit institutions	–	–	641,439	**641,439**
Loans to customers and financial leases	–	–	29,955,929	**29,955,929**
Total	**15,271,698**	**–**	**30,597,368**	**45,869,066**
Liabilities for which fair values are disclosed				
Due to the National Bank of Ukraine	–	–	262,495	**262,495**
Due to credit institutions	–	–	3,047,606	**3,047,606**
Due to customers	–	–	65,746,614	**65,746,614**
Total	**–**	**–**	**69,056,715**	**69,056,715**

	31 December 2017			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	7,264,287	–	–	**7,264,287**
Due from credit institutions	–	–	3,739,554	**3,739,554**
Loans to customers and financial leases	–	–	34,456,461	**34,456,461**
Total	**7,264,287**	**–**	**38,196,015**	**45,460,302**
Liabilities for which fair values are disclosed				
Due to the National Bank of Ukraine	–	–	414,104	**414,104**
Due to credit institutions	–	–	1,946,930	**1,946,930**
Due to customers	–	–	60,755,916	**60,755,916**
Total	**–**	**–**	**63,116,950**	**63,116,950**

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.

	30 June 2018		*31 December 2017*	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
Financial assets				
Cash and cash equivalents	15,271,698	15,271,698	7,264,287	7,264,287
Due from credit institutions	641,439	641,439	3,739,554	3,739,554
Loans to customers and financial leases	29,998,896	29,955,929	33,646,433	34,456,461
Total financial assets	**45,912,033**	**45,869,066**	**44,650,274**	**45,460,302**
Financial liabilities				
Due to the National Bank of Ukraine	262,495	262,495	414,104	414,104
Due to credit institutions	3,047,606	3,047,606	1,946,930	1,946,930
Due to customers	70,027,706	70,058,168	60,646,118	60,755,916
Total financial liabilities	**73,337,807**	**73,368,269**	**63,007,152**	**63,116,950**

(in Hryvnias and in thousands)

29. 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 27 for the Bank's contractual undiscounted repayment obligations.

	30 June 2018				*31 December 2017*			
	Within one year	*More than one year*	*Maturity undefined*	*Total*	*Within one year*	*More than one year*	*Maturity undefined*	*Total*
Cash and cash equivalents	15,271,698	–	–	**15,271,698**	7,264,287	–	–	**7,264,287**
Precious metals	2,194	–	–	**2,194**	7,958	–	–	**7,958**
Derivative financial assets	4,075	–	–	**4,075**	910	–	–	**910**
Due from credit institutions	434,550	206,889	–	**641,439**	3,739,554	–	–	**3,739,554**
Loans to customers and financial leases	16,191,554	13,807,342	–	**29,998,896**	17,733,094	15,913,339	–	**33,646,433**
Trading securities	288,920	–	–	**288,920**	315,094	–	–	**315,094**
Investments available for sale	19,448,734	11,060,723	–	**30,509,457**	8,619,180	11,957,483	–	**20,576,663**
Investment property	–	–	377,021	**377,021**	–	–	348,834	**348,834**
Property and equipment and intangible assets	–	–	1,641,721	**1,641,721**	–	–	1,736,061	**1,736,061**
Assets held for sale	14,845	–	–	**14,845**	60,508	–	–	**60,508**
Other property	–	–	771,040	**771,040**	–	–	740,764	**740,764**
Current tax assets	–	4,921	–	**4,921**	–	4,921	–	**4,921**
Deferred tax assets	–	47,216	–	**47,216**	–	187,584	–	**187,584**
Other assets	576,500	–	–	**576,500**	583,656	–	–	**583,656**
Total	**52,233,070**	**25,127,091**	**2,789,782**	**80,149,943**	**38,324,241**	**28,063,327**	**2,825,659**	**69,213,227**
Due to the National Bank of Ukraine	262,495	–	–	**262,495**	318,488	95,616	–	**414,104**
Due to credit institutions	1,769,337	1,278,269	–	**3,047,606**	1,691,410	255,520	–	**1,946,930**
Derivative financial liabilities	4,495	–	–	**4,495**	3,775	–	–	**3,775**
Due to customers	69,054,090	973,616	–	**70,027,706**	59,799,667	846,451	–	**60,646,118**
Provisions for guarantees and commitments	759,640	–	–	**759,640**	209,392	–	–	**209,392**
Other liabilities	557,234	–	–	**557,234**	367,595	–	–	**367,595**
Total	**72,407,291**	**2,251,885**	**–**	**74,659,176**	**62,390,327**	**1,197,587**	**–**	**63,587,914**
Net amount	**(20,174,221)**	**22,875,206**	**2,789,782**	**5,490,767**	**(24,066,086)**	**26,865,740**	**2,825,659**	**5,625,313**

The Bank's management believes that negative liquidity gap (liquidity gap between financial assets and financial liabilities repayable within one year as at 30 June 2018 amounted to UAH 20,484,872 thousand) that arose as at 30 June 2018 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 – government bonds in the amount of UAH 10,465,682 thousand, bonds of the State Mortgage Institution in the amount of UAH 19,251 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 30 June 2018, 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 10,484,933 thousand.
- Stable balances on current customer accounts determined on the basis of statistical analysis of fluctuations in current customer account balances. As at 30 June 2018, stable balances on current accounts were estimated to be equal to UAH 7,960,494 thousand. Based on the going concern assumption, actual maturity of the stable balances may be considered as undefined.
- Stable balances on customer in other accounts determined on the basis of statistical analysis of fluctuations in other customer accounts. As at 30 June 2018, stable balances on other accounts were estimated to be equal to UAH 4,052,673 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 30 June 2018 in the amount of UAH 20,484,872 thousand based on the estimated maturities of the abovementioned financial instruments has changed to a positive liquidity gap and may be estimated in the amount of UAH 2,013,228 thousand.

(in Hryvnias and in thousands)

30. 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 30 June 2018, the Bank was by 94.94% a state-owned bank under control of the Ministry of Finance of Ukraine (2017: 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:

	30 June 2018			*31 December 2017*		
	State controlled entities	*Other related parties*	*Key management personnel*	*State controlled entities*	*Other related parties*	*Key management personnel*
Assets						
Cash and cash equivalents	–	–	–	4,504,623	–	–
Current accounts with the National Bank of Ukraine	4,495,040	–	–	1,242,025	–	–
Current accounts with other credit institutions	358,937	–	–	443,046	–	–
Due from credit institutions	81,713	–	–	100	–	–
Loans gross	9,333,771	1,906	15,000	14,857,167	1,034	17,640
Less: allowance for impairment	(387,190)	(6)	(108)	(585,160)	(1)	(125)
Trading securities	288,920	–	–	315,094	–	–
Investments available for sale	30,506,280	–	–	20,573,488	–	–
Liabilities						
Due to the National Bank of Ukraine	262,495	–	–	414,104	–	–
Due to credit institutions	117,609	46,830	–	50,526	8,482	–
Due to customers – deposits	10,725,512	79,963	31,669	6,036,396	179,758	47,163
Due to customers – current accounts	22,052,504	5,664	16,262	19,065,151	11,464	19,496
Commitments and guarantees issued	9,741,620	2,316	5,538	9,801,428	372	6,913
Statement of profit or loss and other comprehensive income						
Interest income on loans	864,975	203	393	1,318,339	128	810
Interest income on trading securities	13,052	–	–	23,016	–	–
Interest income on investments available for sale	1,003,200	–	–	2,021,768	–	–
Interest income on deposit certificates of the National Bank of Ukraine	602,965	–	–	531,359	–	–
Interest expense on due to the National Bank of Ukraine	21,439	–	–	73,803	–	–
Interest expense on due to credit institutions	4,580	4	–	5,472	348	–
Interest expense on due to customers	1,057,594	774	492	2,115,567	3,508	2,652
Allowance for impairment of loans: (provision)/recovery	197,970	(5)	17	(372,925)	–	22
Net (losses)/profits from trading securities	(6,157)	–	–	5,116	–	–
Net (losses)/gains on investments available for sale	4,497	–	–	51,818	–	–
Other operating expense	61,990	–	–	110,773	–	–

(in Hryvnias and in thousands)

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

The Banks activities relates 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 30 June 2018, 56% of assets and 58% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities (2017: 60% of assets and 56% of liabilities).

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

Remuneration to key management personnel comprises the following:

	30 June 2018	***30 June 2017***
Salaries and bonuses	56,981	20,778
Total remuneration to key management personnel	**56,981**	**20,778**

31. Capital adequacy

The Bank's policy is to maintain a strong capital base 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 30 June 2018 and 31 December 2017 the minimum level required by the National Bank of Ukraine was 10%. The Bank complied with the statutory capital ratios during the periods ended 30 June 2018 and 31 December 2017.

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 30 June 2018 and 31 December 2017, 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 30 June 2018 and 31 December 2017:

	30 June 2018	***31 December 2017***
Tier 1 capital	6,651,024	6,449,193
Tier 2 capital	(1,160,257)	(823,880)
Total capital	**5,490,767**	**5,625,313**
Risk weighted assets	**40,320,062**	**45,173,595**
Tier 1 capital ratio	16,50%	14.28%
Total capital ratio	13,62%	12.45%

As at 30 June 2018 the Bank was in compliance with the capital ratio calculated in accordance with the Basel Accord.

(in Hryvnias and in thousands)

32. Changes in liabilities arising from financing activities

	Due to the National Bank of Ukraine	*Due to credit institutions (long-term)*	*Total*
Carrying amount at 31 December 2016	**574,997**	**220,114**	**795,111**
Additions	–	80,939	80,939
Repayment	(180,000)	–	(180,000)
Non-cash transactions	19,107	(245)	18,862
Translation differences	–	35,101	35,101
Carrying amount at 31 December 2017	**414,104**	**335,909**	**750,013**
Additions	–	1,009,704	1,009,704
Repayment	(156,235)	–	(156,235)
Non-cash transactions	4,626	9,560	14,186
Translation differences	–	(45,122)	(45,122)
Carrying amount at 30 June 2018	**262,495**	**1,310,051**	**1,572,546**

33. Subsequent events

After 30 June 2018, effective from 13 July 2018, the National Bank of Ukraine has increased the discount rate from 17.0% to 17.5% p.a.