AVANGARD BANK

PUBLIC JOINT-STOCK COMPANY «BANK AVANGARD»

PJSC "BANK AVANGARD"

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2017

with Independent Auditor's Report

TRANSLATED FROM UKRAINIAN ORIGINAL

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INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of PJSC "BANK AVANGARD"

To the National Bank of Ukraine

Opinion

We have audited the accompanying financial statements of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" (the Bank hereinafter), which comprise:

- the statement of financial position as at 31 December 2017;
- Statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows (direct approsch) for 2017 ; and
- a summary of significant accounting policies and other explanatory information.

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

The basis for the opinion

We have audited in accordance with International standards on auditing ("ISA"). Our responsibility in accordance with these standards are set out in the section "Responsibility of the auditor for the audit of financial statements" of our report. We are independent in relation to the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements applicable in Ukraine to our audit of the financial statements, and have performed other duties of ethics in accordance with these requirements and IESBA Code. We consider that the obtained audit evidence is sufficient and acceptable for use as the basis for opinion.

Key audit issues

Key audit issues are issues that, according to our professional judgment, were most significant during our audit of financial statements for the current period. These issues were considered in the context of our audit of financial statements as a whole and taken into account when forming an opinion on it, while we do not express a separate opinion on these issues.

We determined that the issues below are key audit issues that should be reflected in our report.

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Key audit issue	How our in audit the key audit issue was considered

Provisions for covering losses from impairment of loans and advances to customers, loans to other banks - UAH 89 743 thousand.

See Notes 8, 9 and 4.4.

We focused our attention on this area as a key audit issue because of the significance of the balances on items loans and advances to customers, funds in other banks and the subjective nature of the judgments used in calculating the impairment.

Provisions for impairment losses reflect the management's assessment of losses incurred on loans and advances to customers as at the reporting date. They are calculated on a collective basis for loans with similar characteristics and on an individual basis for significant loans. Calculation of reserves on a collective and individual basis requires the application of judgments. Reserves on a collective basis are calculated using statistical models. The inputs for these models are based on previous experience of losses, statistical information and is the subject of management's judgment in order to make assumptions about impairment of assets and the calculation of provisions. To calculate individual provisions, it is necessary to determine when a loss event occurred and then assess the expected future cash flows associated with that loan.

Our procedures included, among others:

- Testing of the internal control system introduced by management personnel in the calculation of provisions for impairment losses on loans and advances to customers, both individually and collectively.
- Regarding collective provisions, the appropriateness of modeling policies and methodologies used for material credit portfolios has been independently assessed for compliance with accounting standards and market practices and model calculations have been verified by recalculation.
- We also independently evaluated the appropriateness of management judgments regarding the used methodology of calculation and segmentation, the period of statistics for calculating default probability indicators and indices of indemnity and value of collateral.
- Regarding individual reserves, the appropriateness of the provision methodology was independently evaluated for a sample of loans across the portfolio, selected on a risk basis. Independent assessment of the level of formed provisions was conducted on the basis of detailed information on the loan and counterparty in the credit business. According to the sample of counterparties, discounted cash flows were recalculated.

Other information

The management is responsible for any other information. Other information consists of the Annual Information of the issuer of securities for 2017, but is not a financial report and our auditor's report on it. It is expected that the Annual Information on the Issuer of Securities for 2017 will be provided to us after the date of this auditor's report.

Our opinion on financial statements does not extend to other information, and we do not conclude with any level of assurance about this other information.

In connection with our audit of financial statements, it is our responsibility to review the other information mentioned above when it is provided to us, while considering whether there is a significant mismatch between the other information and the financial statements or our knowledge gained during the audit, or whether this information is likely to be significantlly distorted.

Responsibility of the Management Board and the Supervisory Board for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such an internal control system that management personnel deems necessary to ensure the preparation of financial statements that do not contain material misstatement due to fraud or error.

When preparing the financial statements, the Board is responsible for assessing the Bank's ability to continue its operations on an ongoing basis, disclosing, where applicable, business continuity issues, and using assumptions about the continuity of activities as a basis for accounting, unless management or plans to liquidate the Bank or cease operating, or has no other real alternatives to it.

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

Auditor's responsibility for audit of financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole do not contain material misstatement due to fraud or error and the issuance of an auditor's report containing our opinion. The substantiated confidence is a high level of certainty, but it does not guarantee that an audit carried out in accordance with the ISA, will always reveal material misstatement when it exists. Misstatement may be the result of fraud or error; they are considered material if, individually or collectively, they are reasonably expected to affect the economic decisions of users that are taken on the basis of these financial statements.

By conducting an audit in accordance with ISA, we use professional judgment and professional skepticism throughout the audit task. In addition, we:

- identify the risks of material misstatement of financial statements as a result of fraud or error, develop and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and acceptable to use as the basis for our opinion. The risk of non-disclosure of material misstatement as a result of fraud is higher than of material misstatement due to an error, as fraud may include conspiracy, forgery, deliberate omission, incorrect statements or neglecting of internal control measures;
- we get an understanding of the internal control related to the audit to develop audit procedures that are in line with the circumstances, rather than expressing an opinion on the effectiveness of the Bank's internal control system;
- assess the appropriateness of the applied accounting policies and the reasonableness of the accounting estimates and relevant disclosures made by the management;
- we arrive at a conclusion as to the appropriateness of using the assumption of going concern as a basis for accounting by management personnel and, on the basis of audit evidence obtained, we conclude that there is a material uncertainty about events or conditions that would significantly undermine the Bank's ability to continue as a going concern. If we arrive at a conclusion about the existence of such material uncertainty, we should draw attention in our auditor's report to relevant disclosures in the financial statements or, if such disclosures are inappropriate, to modify their views. Our findings are based on audit evidence received prior to the date of our auditor's report. Nevertheless, future events or conditions may force the Bank to terminate its activities as a going concern.
- We evaluate the overall presentation, structure and content of financial statements, including disclosures, and whether the financial statements of operations and events underlying its compilation are presented in such a way as to achieve a fair presentation.

We report to the Supervisory Board information about the planned amount and timing of the audit and the significant audit findings found during the audit, including any significant deficiencies of the internal control measures identified by us during the audit.

We also submit to the Supervisory Board the assertion that we have met the relevant ethical requirements for independence, and we notify them of all relations and other issues that might reasonably be considered as affecting our independence and, where applicable, regarding the relevant precautionary measures .

From the list of all issues that were provided to the Supervisory Board, we identified those that were most important during the audit of the separate financial statements of the current period, that is, those that are key issues in the audit. We describe these issues in our auditor's report, unless a legislative or regulatory act prohibits a public disclosure of the issue, or if, in very exceptional circumstances, we determine that such a question should not be covered in our report, since the negative effects of such coverage may be expected to outweigh it utility for the public interest.

The partner of the audit, which resulted in this independent auditor's report, is Gagik Nersesyan.

Report on the requirements of other legislative and regulatory acts

In accordance with the requirements of the Law of Ukraine "On Banks and Banking" and the requirements of the National Bank of Ukraine (NBU), based on the results of the audit of the Bank's annual financial statements, auditors should express an opinion on the said statements, as well as provide a report on the results of the audit.

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The purpose of the audit was to express an opinion as to whether the annual financial statements of the Bank for 2017 in all material respects accurately reflect the financial position of the Bank in accordance with international financial reporting standards.

The information contained in this report is the result of our procedures for auditing the annual financial statements of the Bank for 2017. The information is obtained on the basis of sampling testing and in the volumes necessary for planning and conducting of audit procedures.

This report is intended for informing and use by the management of the Bank and the National Bank of Ukraine and can not be used by any other party. When familiarizing with this report it is necessary to take into account the limited dimension of the procedures, as described above, for evaluating issues related to the Bank's activities, the organization of the accounting and internal control system.

In addition, it must be taken into account that the criteria for assessing us issues related to the Bank's activities, the organization of the system of accounting and internal control, may differ from the criteria applied by the National Bank of Ukraine.

As a result of our audit procedures in the framework of the audit of annual financial statements, we express our opinion on the compliance of the Bank with the requirements set forth by the regulatory acts of the National Bank of Ukraine on:

regarding the compliance of the distribution of assets and liabilities of the bank by maturity

As a result of our audit procedures during the audit of annual financial statements, we have not found evidence of the Bank's failure to comply with the requirements of the National Bank of Ukraine regarding the compliance (repayment) of the distribution of assets and liabilities by maturity in the form of statistical reporting on the structure of assets and liabilities by terms 631 " Report on the structure of assets and liabilities by terms ", which was drawn up for submission to the National Bank, as at January 1 of the year following the reporting period.

regarding internal control

As a result of our audit procedures within the audit of annual financial statements, we have not found evidence that the structure and actions of the Bank's internal control do not meet the requirements of regulatory acts of the NBU, in particular, the Resolution of the National Bank of Ukraine No. 867 as of 29 December 2014 "*On Approval Regulation on the organization of internal control in the banks of Ukraine ".*

regarding internal audit

In our opinion, at the time of audit, the Bank's internal regulatory documents that regulate internal audit procedures comply with the requirements of the NBU regulatory acts, in particular, the Resolution of the National Bank of Ukraine No. 311 as at 10 May 2016 "On Approval of the Regulation on the Organization of Internal Audit in Banks of Ukraine" . The internal audit procedures are carried out in compliance with the requirements of the Bank's internal regulatory documents.

regarding determining the level of credit risk in active banking operations

The amount of credit risk at the reporting date is calculated by the Bank in accordance with the requirements of regulatory acts of the National Bank, including the Regulation on the determination by banks of Ukraine of the amount of credit risk under active banking operations, approved by the Resolution of the Board of the NBU No 351 as at 30 June 2016 (hereinafter - Resolution NBU No. 351).

As a result of our audit procedures in the framework of the audit of annual financial statements, we have not detected any material deviations from the Bank's credit risk calculation as at 31 December 2017.

regarding the recognition of parties associated with the bank and transactions with them

As a result of our audit procedures during the audit of annual financial statements, we have not found evidence of non-compliance of the Bank's system with risk management in the course of transactions with related parties, procedures for identifying the persons related to the Bank and carrying out transactions with them with the requirements of the NBU regulatory acts. During the audit, we have not detected any violations of regulatory requirements in relation to transactions with related parties.

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regarding the adequacy of the bank's capital, which should be determined taking into account the quality of the assets of the bank, as well as transactions with bank related persons

The authorized capital of the Bank as at 31 December 2017 is sufficient and according to the information of the Bank amounts to UAH 208 498 thousand. As noted in Note 21 "Authorized Capital", during the year the Bank registered an increase in the nominal value of ordinary registered shares at the expense of the profit of previous years.

As of 31 December 2017, the Bank's regulatory capital amounts to UAH 311,929 thousand, which corresponds to the requirements of regulatory acts of the NBU (see Note 32 "Capital management").

regarding accounting

The Bank's accounting system meets the requirements of NBU regulations and accounting policies of the Bank.

Partner — Sergey Kesarev

Auditor — Gagik Nersesyan

The Certificate of Bank Auditor No.0171
issued by the Audit Chamber of Ukraine on 12/22/2011

1 March 2018

Kyiv, Ukraine

Registration No.18-019

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Statement of Financial Position as at 31 December 2017

(in UAH thousand)

	(Note)	2017	2016
Assets			
Cash and cash equivalents	6	25 203	31 127
Financial assets that are recognized at fair value through profit or loss	7	723	253
Due from other banks	8	229 102	563 635
Loans and advances to customers	9	125 166	44 266
Available-for-sale securities in trading portfolio	10	833 393	575 968
Held-to-maturity securities in trading portfolio	11	137 946	113 074
Current tax receivables		-	1 172
Deferred tax assets	28	578	105
Fixed and intangible assets	12	1 900	2 048
Other financial assets	13	276	252
Other assets	14	819	1 040
Total assets		**1 355 106**	**1 332 940**
Liabilities			
Due to banks	15	171 556	86 486
Due to customers	16	852 370	1 020 029
Financial liabilities that are recognized at fair value through profit or loss	17	1 907	1 705
Current tax liabilities		8 680	2 373
Other financial liabilities	18	3 799	5 250
Provisions for liabilities	19	100	170
Other liabilities	20	5 554	3 874
Total liabilities		**1 043 966**	**1 119 887**
Equity			
Share capital	21	208 498	162 382
Retained earnings (losses)		100 363	48 616
Reserves and other funds		4 562	2 134
Revaluation reserves	22	(2 283)	(79)
Total equity		**311 140**	**213 053**
Total liabilities		**1 355 106**	**1 332 940**

Authorized for issue and signed by:

Acting Chairman of the Board **/I. Dvorzhanska/**

Chief Accountant **/V. Chechotkina/**

28 February 2018

In charge: M. Dmytrieva

t.: (044) 502–23–04

Statement of Comprehensive Income for 2017

(in UAH thousand)

	(Note)	2017	2016
Interest income	24	127 002	92 496
Interest expenses	24	(60 752)	(53 725)
Net interest income/(Net interest expense)		**66 250**	**38 771**
Net (increase)/decrease in provisions for impairment of due from customers, due from other banks	8,9	54 312	(5 578)
Net interest income/(Net interest expenses) after creation of provision for impairment of due from customers, due from other banks		**120 562**	**33 193**
Fee and commission income	25	11 502	8 308
Fee and commission expenses	25	(833)	(1 851)
Net fee and commission income		**10 669**	**6 457**
Result from transactions with financial instruments, that are recognized at fair value through profit or loss	27	(3 898)	5 395
Gains on foreign exchange transactions		30 659	36 791
Gains on securities trading transactions in trading portfolio		859	1 727
Net (increase)/decrease provision for impairment of available-for-sale securities in trading portfolio	10	(8 835)	-
Net (increase)/decrease provision for impairment of receivables and other financial assets	13	15	(16)
Net (increase)/decrease in provisions for liabilities	19	70	(14)
Other operational income		400	-
Operating income		**150 501**	**83 533**
Administrative and other operating expenses	26	(28 194)	(24 298)
Profit / (Loss) before tax		**122 307**	**59 235**
Income tax expenses	28	(22 016)	(10 675)
Net profit for the year		**100 291**	**48 560**
Other comprehensive income			
Items to be reclassified in profit or loss			
Revaluation of available-for-sale securities in trading portfolio		(2 688)	(96)
Income tax related to other comprehensive income	28	484	17
Other comprehensive income after tax		(2 204)	(79)
Total comprehensive income for the year		**98 087**	**48 481**
Net profit/(loss) per an ordinary share (UAH)	**29**	**822,06**	**398,03**

Authorized for issue and signed by:

Acting Chairman of the Board /I. Dvorzhanska/
Chief Accountant /V. Chechotkina/
28 February 2018
In charge: M. Dmytrieva
t.: (044) 502–23–04

Statement of Cash Flows
for 2017
(direct approach)
(in UAH thousand)

	(Note)	2017	2016
Cash flows from operating activities			
Interest received		118 099	90 361
Interest paid		(65 131)	(47 342)
Fee and commission income		11 786	8 054
Fee and commission expenses		(845)	(1 978)
Trading securities operating result		(393)	8 575
Financial derivative instruments operating result, that are recognized at fair value through profit or loss		(5 220)	4 826
Gains from foreign exchange transactions		28 216	19 057
Staff costs paid		(19 591)	(16 818)
Administrative and other operating expenses paid		(6 157)	(4 879)
Income tax paid		(14 522)	(12 583)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**46 242**	**47 273**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		69 700	84 547
Net (increase)/decrease in mandatory cash balances with the National Bank of Ukraine		-	-
Net (increase)/decrease in loans and advances to customers		(84 391)	(40 992)
Net (increase)/decrease in other assets		17	(1)
Net increase/(decrease) in due to banks		85 123	86 155
Net increase/(decrease) in due to customers		(163 335)	738 537
Net increase /(decrease) in other financial liabilities		(1 514)	1 746
Net cash flows from/(used in) operating activities		**(48 158)**	**917 265**
Cash flows from investment activities:			
Purchase of available-for-sale securities in trading portfolio		(9 804 642)	(11 010 665)
Proceeds on disposal of available-for-sale securities in trading portfolio		9 538 344	10 460 619
Purchase of held-to-maturity securities in trading portfolio		(22 579 667)	(5 389 000)
Proceeds on redemption of held-to-maturity securities in trading portfolio		22 564 911	5 307 000
Acquisition of fixed assets		(192)	(292)
Acquisition of intangible assets		(176)	(167)
Net cash flows from/(used in) investing activities		**(281 422)**	**(632 505)**
Cash flows from financing activities			
Ordinary shares issue		–	–
Net cash flows from/(used in) financing activities		**–**	**–**
Effect of changes in official foreign exchange rate of the		**(1 167)**	**3 915**

National Bank of Ukraine on cash and cash equivalents			
Net increase /(decrease) in cash and cash equivalents		**(330 747)**	**288 675**
Cash and cash equivalents, at the beginning of the year	6	**481 402**	**192 727**
Cash and cash equivalents, at the end of the year	6	**150 655**	**481 402**

Authorized for issue and signed by:

Acting Chairman of the Board /I. Dvorzhanska/
Chief Accountant /V. Chechotkina/
28 February 2018
In charge: M. Dmytrieva
t.: (044) 502-23-04

Statement of Changes in Equity for 2017

(in UAH thousand)

	Share capital	Reserve fund	Revaluation reserve	Retained earnings	Total
Balance as at 31 December 2015	**136 518**	**770**	**-**	**27 284**	**164 572**
Increase in nominal value of shares	25 864	-	-	(25 864)	-
Distribution of previous year's profit	-	1 364	-	(1 364)	-
Total comprehensive income	-	-	(79)	48 560	48 481
Balance as at 31 December 2016	**162 382**	**2 134**	**(79)**	**48 616**	**213 053**
Increase in nominal value of shares	46 116	-	-	(46 116)	-
Distribution of previous year's profit	-	2 428	-	(2 428)	-
Total comprehensive income	-	-	(2 204)	100 291	98 087
Balance as at 31 December 2017	**208 498**	**4 562**	**(2 283)**	**100 363**	**311 140**

Authorized for issue and signed by:

Acting Chairman of the Board /I. Dvorzhanska/

Chief Accountant /V. Chechotkina/

28 February 2018

In charge: M. Dmytrieva

t.: (044) 502-23-04

Note 1. Corporate information

The financial statements have been prepared in accordance with International Financial Reporting Standards based on operating results of PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD". The reporting year is 2016.

PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD" (hereinafter "the Bank") was registered in the State Register of Banks of Ukraine on 5 July 2013 under the registration No.346. The Bank is a resident of Ukraine, it is located at: 04116, Kyiv, 3 Sholudenko Street.

The Bank is a member of the Individual Deposit Guarantee Fund, a self-regulatory organization of professional participants of the securities market: the Association "Ukrainian Stock Traders", UkrSWIFT.

The Bank has correspondent banking relationships with DEUTSCHE BANK, the largest banks of Ukraine and settles accounts through leading international banks in all major currencies of the world by means of S.W.I.F.T. international payments. Since December 2013, the Bank has been cooperating with LLC "UKRAINIAN CREDIT HISTORY BUREAU" regarding data transfer on borrowers' credit histories.

In 2014 Westal Holdings Ltd. (location: Arch. Makarios III Avenue, 140, Raptopoulos Building, 3rd floor, office 301, 3021 Limassol, Cyprus) became the Shareholder of the Bank with a substantial holding in it. As at 1 January 2016, Westal Holdings Ltd. Directly holds 99.9902% of the Bank's share capital.

The following legal entities and individuals are indirect substantial share interest owners of the Bank:

- ICU Holdings Limited (location: Trident Chemberz, P.O. Box 146, Road Town, Tortola, British Virgin Islands), which indirectly owns:
    - 99,9902% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
    - 0,0098% of shares in the Bank through other legal entities;
- A group of individuals wedded by common economic interests, namely :
    - individual Kostiantyn Stetsenko (residence: Ukraine, Kyiv) indirectly owing 41,7095% of shares in the Bank through ICU Holdings Limited, which indirectly owns:
        - 99,9902% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
        - 0,0098% of shares in the Bank through other legal entities ;
    - individual Makar Pasenyuk (residence: Ukraine, Kiev region, Vyshgorod) indirectly owing 41,7095% of shares in the Bank through ICU Holdings Limited, which indirectly owns:
        - 99,9902% of shares in the Bank through 100% stockholding in Westal Holdings Ltd; and
        - 0,0098% of shares in the Bank through other legal entities.

On 02/22/2018, an independent rating agency "Credit-Rating" reaffirmed the Bank's credit rating at uaAAA level; a forecast is "stable". A rating report can be found by reference http://www.avgd.ua/topublish/CR_Avangard_ua_220218.pdf

The Bank operates as a multipurpose bank, whose activities are aimed at a comprehensive customer servicing and providing of high-quality services by offering a wide range of banking services and products, focusing its core business on the exchange, monetary and stock markets, conducting operations both by own resources and at the customers' expense.

The bank has no affiliates, branches and separate structural divisions. The services are rendered to customers at the Head Office.

As at the end of the year, the Bank's customer base is formed by legal entities-businesses (126 customers), non-bank financial institutions (42 customers), private customers (26 customers)

and individual entrepreneurs (3 customers). The bank maintains 488 accounts and serves 197 customers.

Strategic goal

The Bank was established according to a special concept focused on the use of a solid grounding in its business segment with maximum operating efficiency by means of price-related competition and high-tech solutions. At this stage the principal directions of the Bank's activities are securities trading, active participation in the interbank loans market, "Forex" market transactions.

Types of banking activities

The Bank performs banking operations in the money and foreign exchange markets in accordance with the Banking License No. 269 dated 5 July 2013, the General License for conducting currency transactions No. 269-2 and the Annex to the General License for conducting currency transactions No. 269-2 issued by the National Bank of Ukraine on 10 February 2014.

As at the reporting date, the Bank has the License of the State Commission for Securities and Stock Market for conducting professional activities in the securities market as a dealer.

The Bank's activities are based on the principles of reliability, transparency, well-balanced financial performance, compliance with requirements and best practices of banking activities in the following areas:

Treasury operations: operations in the monetary market, transactions in the foreign exchange market, securities transactions, relationships with professional financial market participants - banks, insurance companies, financial intermediaries of capital markets. Deposit attracting transactions from the Bank's customers are considered as transactions in the monetary market, since they represent the main source of the Bank's funding. In order to provide such funding the following measures have been organized: customer servicing, document management associated with all types of transactions and operations, payment and message processing in the "Client-Bank" system, opening and maintaining of current accounts of customers and correspondent banks, including transfer of funds using payment instruments and crediting of funds to accounts; management of customers' (both resident and non-resident) accounts in foreign currencies and non-resident customers' accounts in the currency of Ukraine; management of correspondent accounts of banks (resident) in foreign currencies; opening of correspondent accounts in the authorized banks of Ukraine in foreign currencies and transactions with them.

In 2017, the National Bank of Ukraine has applied to the Bank no restrictions to limit activities performed by the Bank according to permits and licenses granted; there has been also no restrictions regarding the ownership of assets.

No decisions were made during the reporting year by the Bank's Management on the merger, consolidation, disintegration, separation or transformation of the Bank or on the termination of certain activities of the Bank.

There were no bankruptcy proceedings or arbitrations on the Bank's resolution; no decisions were made on the Bank's termination or bankruptcy by the highest governing body of the Bank or the court.

No borrowings or loans exceeding 25% of the Bank's total assets were received or provided.

Performance indicators in 2017

As at 31 December 2017, the Bank's assets amounted to UAH 1 355 106 thousand (as at 31 December 2016 – UAH 1 332 940 thousand). The basic constituents of assets are highly liquid assets and interbank transactions.

The Bank invested in debt securities, mainly government bonds and deposit certificates of the National Bank of Ukraine, which provided an acceptable yield upon low risk exposure conditions. Funds in nostro accounts are deposited at non-resident and resident banks.

As at 31 December 2017, the Bank's liabilities amounted to UAH 1 043 966 thousand (2016: UAH 1 119 887 thousand). The resource base is formed by customer assets, including short-term funds of legal entities and individuals. As at 31 December 2017, the portfolio of customer deposits amounted to UAH 852 370 thousand (UAH 1 020 029 thousand).

As at 31 December 2017, the Bank's equity amounted to UAH 311 140 thousand (2016: UAH 213 053 thousand). The main component of equity is the Bank's share capital.

As at 31 December 2017, the Bank's regulatory capital amounted to UAH 311 929 thousand, including tier I capital in the amount of UAH 211 693 thousand and tier II capital in the amount of UAH 100 236 thousand.

During 2017, the Bank adhered to the economic standards of the National Bank of Ukraine, which as at 31 December 2017 had the following indicators:

	Characteristic value	As at 31 December 2017	As at 31 December 2016
regulatory capital ratio (N1)	UAH 122 000 ths.	UAH 311 929 ths.	UAH 218 221 ths.
regulatory capital adequacy ratio (N2)	not <10%	67,07%	41,64%
instant liquidity ratio (N4)	not <20%	31,74%	69,07%
current liquidity ratio (N5)	not <40%	85,24%	137,12%
short-term liquidity ratio (N6)	not <60%	74,61%	133,14%

As at 31 December 2017, the Bank's activities are income-generating.

Following the results of 2017, the Bank received net profit amounting to UAH 100 291 thousand. The increase in comparison with 2016 was mainly due to the growth in net interest income after provision for impairment of loans to customers and funds in other banks. The increase in net fee and commission income should also be noted.

Corporate governance

The Bank's supreme governing body is the General Meeting of the Shareholders. In the periods between the General Meeting of the Shareholders, the Supervisory Board of the Bank protects the Shareholders' rights, as well as controls and regulates within its competence the activities of the Board of Directors.

The exclusive competence of the Supervisory Board includes the following: approving of the Provisions and other internal documents of the Bank, which regulate issues related to the Bank's activities, approval of which is within the jurisdiction of the Supervisory Board; decision-making in respect of holding of the General Meeting of the Shareholders, approving the agenda of the Meeting, electing a registration commission and deciding on the date of the Meeting; decision-making on repurchasing and placing by the Bank of other securities other than shares; approving of the market value of property in cases stipulated by law; electing and terminating of powers of the Chairman and members of the Board of Directors, monitoring the activities of the Board; decision-making on removal of the Chairman of the Board from his/her powers and electing a person temporarily exercising the powers of the Chairman of the Board; electing of an auditor; creating of the Internal Audit Department and

approval of the respective Provisions; appointing and dismissal of the Head of the Internal Audit Department; determining of the external auditor and the respective contractual terms; establishing audit procedures and controls over financial and economic activities of the Bank; decision-making on covering losses; addressing issues of the Bank's participation in corporations, establishment, reorganization and liquidation of other legal entities, branches and representative offices of the Bank, approval of their statutes and regulations; determining the probability of recognition of the Bank's insolvency caused by assumption or implementation of liabilities, including payment of dividends or redemption of shares; decision-making on the election of the Bank's property appraiser; decision-making on the election (substitution) of a registrar of inscribed stock holders of the Bank or a depository of securities and approving of respective contractual terms, remuneration determining; as well as other issues specified by applicable law or delegated to the Supervisory Board by the General Meeting of the Shareholders.

The executive body of the Bank is the Management Board, which manages the daily operations of the Bank, is responsible for formation of funds required for the Bank's statutory activities and efficiency of its operations in accordance with the principles and procedures established by the Bank's Charter, resolutions of the General Meeting of the Shareholders and the Supervisory Board. The Management Board is accountable to the General Meeting of the Shareholders and the Supervisory Board of the Bank and provides for the implementation of their decisions. The Management Board decides on the managing of the Bank's structural divisions, monitors the Bank's compliance with the current legislation of Ukraine; organizes deposit operations for the Bank's cash assets and valuables, accounting and reporting transactions, internal controls and other issues regarding the Bank's activities; reviews and approves the internal documents at the Bank within its competence, decides on the establishment, management and liquidation of the Bank's structural divisions other than those which fall within the exclusive competence of the Supervisory Board, and exercises other powers stipulated by the current legislation of Ukraine.

The Bank's organizational structure is based on the main directions, each of them being dependent to one of the members of the Management Board.

As at the year-end, the number of employees at the Bank is 25 persons.

Risk management system

The Bank's risk management system is aimed at ensuring the implementation of business goals defined under the Bank's development strategy and enhancing its value, optimizing the potential opportunities and risks ratio, capital stock and growth rates of the Bank.

The main instrument in implementation of these objectives is a comprehensive risk management system established at the Bank that provides action coordination across all the departments within a single strategy regarding risk management, approved by the Supervisory Board of the Bank. The formation of the integrated system is aimed at a maximum concentration of the Bank's risk management functions, ongoing analysis of the situation and environment where risks arise and executive decision-making regarding the influence over these risks and/or the level of the Bank's exposure to them.

The Bank's risk management system is based on the principles defined by the regulatory authorities and recommendations of the Basel Committee.

The distribution of functions and powers in the risk management covers all organizational levels and divisions of the Bank. The basic structure of the Bank's risk management stipulates for the involvement of the Supervisory Board, the Management Board, special-purpose committees, the Bank's risk management services and structural divisions in the risk management process.

The general supervision over the implementation of the Bank's risk management is carried out by the Bank's Supervisory Board; the implementation of the risk management system is carried out by the Management Board.

The Asset and Liability Management Committee determines the optimal balance sheet structure, plans the financial performance indices and monitors their implementation, considers the cost of funding sources, controls the liquidity risk, interest rate and foreign currency risks.

The Credit Committee manages credit and investment activities and monitors the credit risks associated with individual customers and credit-investment portfolio as a whole.

The Tariff Committee regulates commission income, analyzes the current tariff rate competitiveness.

The Risk Management Division provides for quantitative and qualitative assessment of risks faced by the Bank, or those, which may arise as a result of future activities, monitors the status and amount of risks, namely:

- credit risk;
- liquidity risk;
- interest rate risk;
- market risk;
- foreign currency risk;
- operational and technological risks;
- compliance-risk;
- reputation risk;
- legal risk;
- strategic risk.

The Internal Audit Division evaluates the sufficiency of the risk management systems to the Bank's requirements.

The Bank's structural divisions perform the risk operational management associated with their activities according to the established risk tolerance levels and limits, and are responsible for the risk acceptance results. The Bank improves the risk management system on a regular basis and provides timely updating of the interbank statutory framework in case of changes in legal, regulatory or statutory requirements, the Bank's organizational structure and risk tolerance.

Note 2. The economic environment, in which the Bank operates

According to the State statistics service of Ukraine, the index of industrial production decreased by 0.1% in 2017, while in the last year there was an increase by 2.8%. In mining industry, in particular there was considerable decrease by 5.8% and it resulted in a decline in production in energy industry (6.5%). Also, due to the increasing of coal shortage in the domestic market and the intensification of the conflict in the Donbas in early 2017, coke production decreased by 15%. However, a lot of industries felt quite comfortable, because there was quite high demand from agriculture that contributed to the increase of production in chemical and engineering industry by 17.4% and 7.3% respectively. Decrease in the food and consumer goods industry was by 2.7% and 6.3%. Due to the high world price for steel, the decrease of steel production was only by 0.4% last year. As the result, the processing industry grew by 4%.

According to state statistics, in 2017 inflation accelerated to 13.7% (from 12.4% in 2016).The greatest contribution to the inflation rate was made by food and non-alcoholic beverages (+7,4), which appreciate in value by 17.7% because of an increase of exports and decrease in crop due to cold spring. Overall, the transport field, the price increase was 16.7%, and it was due to the increase of fuel prices and increase of tariffs by carriers. In addition, inflation was significantly impacted by the increase in excise duties, which led to raising the price of tobacco products and alcoholic beverages by 20.7%. According to experts of the Independent Association of Banks of Ukraine, inflation risks in 2018 will be quite high and are associated with rapidly growing wages and a sharp rise in social standards.

According to the National Bank of Ukraine, in 2017 deposits increased significantly, both of corporate and household sectors. Against the background of increasing wages and rising credibility of the banking sector, the deposit portfolio of induviduals in the national currency increased by 19.4%. At the same time, household savings in foreign currency at banks decreased by 0.5%. The stabilization of the economic situation and the revival of business activity contributed to the growth of business deposits both in the national currency and foreign currency by 11.4% and 8.6%, respectively.

In 2017, lending in local currency grew and the foreign currency debt decreased, on the contrary. Against the background of stabilization of the economic situation, banks have started to lend to the real sector of the economy - loans to the corporate sector in local currency increased by 8.7%. Meanwhile, loans in UAH to individuals increased by 38.3%. This leap was caused by the rapid consumption growth because of increased household income. On the other hand, the volatility of the hryvnia exchange rate and the active work of banks over bad debts resulted in a decrease of the loan portfolio of induliduals and legal entities in foreign currency by 23.7% and 10% respectively.

Despite the tightening of monetary policy of the NBU in the second half of 2017 the rates fell slightly. According to the NBU, deposit rates declined faster than loan. For example, interest rates on new deposits of the corporate sector decreased to 9.3% per annum in UAH and up to 2.5% per annum in foreign currency. Since the deposit portfolio of the population is less sensitive to changes in rates, the decline was much faster. So, interest rates on hryvnia deposits of natural persons fell to 11.4%, and on currency - to 2.7% per annum. Meanwhile, the reduction in lending rates was less noticeable. New rates on hryvnia loans to individuals fell to 30.4% per annum, and for entities - up to 15.8 percent. Foreign currency loans to the corporate sector fell to 6.6% per annum.

Given the above, the management of the Bank concludes increasing uncertainty of the economic environment in which the Bank operates, which leads to a reduction of the planning and forecasting of key performance indicators period. To 3 months, the Bank observes no reason for significant changes of main factors of its activities.

Note 3. Basis of presentation

The Bank's annual financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on a historical cost basis, except for the following items: available-for-sale securities in the Bank portfolio at fair value, loans and advances to customers, due from other banks, due to customers, held-to-maturity securities in the Bank portfolio at amortized cost.

The financial statements are presented in UAH, and all amounts are rounded to thousands, except where otherwise indicated. The Bank's functional currency is UAH.

The Bank's accounting policy for the reporting period corresponds in all major aspects to the Bank's accounting policy for the previous period.

The Bank's accounting records and financial statements are based on the following principles:

- full coverage - all banking transactions are to be registered on accounts without any exceptions. The financial statements must contain all information about actual and potential effects of the Bank's operations that may affect the decisions made according to it;
- continuity - the Bank's assets are valued on the assumption that the Bank is a going concern and remains active in the boundless future. If the Bank plans to scale down its activities, such intention shall be recorded in the financial statements;
- consistency - the Bank's permanent (year on year) application of accounting policies selected. Changes in the accounting method are possible only in cases stipulated by international standards and national regulations of accounting and require additional justification and disclosures in the financial statements.
- accrual and correspondence of income and expenses – in order to determine the reporting period results, the income for the reporting period shall be reconciled with the expenses incurred to obtain such income. Income and expenses are disclosed in the accounting records and financial statements when incurred regardless of the date of receipt or payment of cash assets. Income represents increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Expenses represent decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants;
- autonomy - all asset and liability accounts of are measured separately and disclosed in detail;
- prudence – prudence requires that accountants should exercise a degree of caution in the adoption of policies and significant estimates such that the assets and income of the entity are not overstated whereas liability and expenses are not under stated;
- substance over form - is an accounting concept which requires transactions to be accounted for according to their substance and not merely their legal form.

Going concern

According to the Resolution of the Board of the National Bank of Ukraine No.464 dated 08/06/2014, the Bank is required to increase its share capital.

The enhancement of the share capital up to UAH 500 000 thousand is planned through capitalization of retained earnings, additional contributions of the Shareholders or raising funds from investors.

There are no plans regarding termination of the Bank's activities.

These financial statements have been prepared on the assumption of the Bank's ability to continue as a going concern.

Note 4. Summary of significant accounting policies

Note 4.1. Core activities

The Bank operates under the legislation of Ukraine, including the Laws of Ukraine "On Banks and Banking Activity", "On Accounting and Financial Reporting in Ukraine", "On Payment Systems and Money Transfer in Ukraine", the Tax Code of Ukraine. The Bank maintains accounting records in accordance with the statutory requirements for accounting and reporting in the banks of Ukraine set by the rules of the National Bank of Ukraine in accordance with International Accounting Standards, as well as the Bank's internal documents, the Charter, Regulations on the Supervisory Board of the Bank, Regulations on the Management Board, and other transaction regulations.

During 2017 the Bank's activities were focused on expanding the customer base, improving key business processes and customer service technologies, updating banking services in response to changes occurring in the country and society.

The Bank aims to maximize profits from treasury operations and fully meet the needs of customers in qualitative banking servicing on the monetary, foreign exchange and stock markets. The Bank's activities are based on the principles of reliability, transparency, well-balanced financial performance, compliance with banking regulations.

The nature of operations and principal activities of the Bank are set out in the Corporate information.

Note 4.2. Basis of preparation

Key assessment indicators. Financial assets and liabilities are stated at fair value, historical cost or amortized cost depending on their classification.

Fair value – is the amount on which an asset can be exchanged, or a liability settled during the implementation of an agreement on general conditions between knowledgeable unrelated parties acting on a voluntary basis. Fair value is the current bid price for financial assets and financial liabilities for the bid listed on the active market. A financial instrument is considered so that is quoted in an active market, if the quotes for this financial instrument are readily and regularly available on the stock exchange or other institution and those prices represent actual and regularly occurring market transactions on general terms. To determine the fair value of certain financial instruments for which there is no information about market prices from external sources, the valuation techniques are used such as discounted cash flow, valuation models that are based on data about the latest agreement made between unrelated parties, or analysis of financial information on investment objects. The use of valuation techniques may require assumptions not supported by observable market data. The information in the financial statements is disclosed in cases when changing of any such assumptions by possible alternative may result in significantly different profit, income, total assets or total liabilities.

Historical cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the acquisition date, which includes transaction costs. Historical cost valuation is applied to equity instruments that do not have a quoted

market prices in an active market, and fair value of which cannot be reliably measured. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if an entity had not acquired, issued or disposed of a financial instrument. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. In addition to assessment methods in recognition of assets, the Bank uses various methods to bring the value of financial instruments and assets to fair value through the accrual of income and expenses, including using the effective interest rate method, formation of special-purpose bank reserves, revaluation to fair value, depreciation of non-current assets, etc.

Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus interest accrued, plus (or minus) cumulative amortization of any difference between that initial amount and the maturity amount using effective interest method, and minus any reduction for impairment for the financial assets.

Effective interest rate method is the method of calculating the amortized cost of a financial asset or a financial liability and allocating 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 (excluding future credit losses) through the expected life of a financial instrument or, where appropriate, a shorter period to the net balance sheet value of a financial asset or a financial liability.

The accounting policies of the Bank in all significant respects consistent with the requirements of IFRS and the requirements of regulatory legal acts of the National Bank of Ukraine.

Note 4.3. Initial recognition of financial instruments

A financial asset or a financial liability is recognized when the Bank becomes a party to the agreement on this financial instrument. At initial recognition financial assets and financial liabilities are measured:

- at fair value - trading securities;
- at fair value plus transaction costs through profit or loss directly attributable to the acquisition or issue of a financial asset or financial liability - derivatives and all other financial instruments. The fair value of a financial instrument at initial recognition is normally the actual transaction price. Gains or losses at initial recognition are recognized only if there is a difference between the fair value and the contractual value proved by other current transactions with the same financial instrument observed in the market, or valuation techniques using only observable inputs as baseline data.

Purchases and sales of financial assets supply of which is carried out within the terms established by the laws or customs of business turnover for the particular market were stated on the transaction date. All other purchases and sales are recognized on the settlement date, where the change in the fair value of the assumption of obligations between a transaction date and settlement date is not recognized in respect of assets carried at cost or amortized cost.

Note 4.4. Impairment of financial assets

Financial assets, other than financial assets at fair value through profit and loss, are assessed for impairment indicators at the end of each reporting period. Impairment losses are recognized in profit or loss when incurred. Financial assets are considered impaired when there is an objective evidence that as a result of one or more events occurred after the initial recognition of a financial asset there was a negative effect on the estimated future cash flows from investments.

The main events that indicate the impairment of a financial asset are as follows:

- significant financial difficulties of a customer;
- breach of a contract, such as default or delinquency in interest or principal payments;
- debt restructuring (for economic or legal reasons related to financial difficulties of a debtor), that would not otherwise be considered by the Bank;
- high probability of bankruptcy or financial reorganization of a borrower;
- extinction of an active market for a financial asset because of financial difficulties;
- credit operation claimed by the debtor (including through legal action);
- other events objectively evidencing the impairment of a financial asset.

For financial assets measured at amortized cost, the amount of the impairment loss represents the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate for the relevant financial asset.

For financial assets measured at cost, the amount of the impairment loss represents the difference between the asset's carrying amount and the present value of future cash flows discounted at the current market rate for a similar financial asset. Such impairment loss is not reversed in subsequent periods.

Note 4.5. Derecognition of financial instruments

Financial assets. A financial asset (or, where applicable a part of a financial asset or group of similar financial assets) is derecognized when the assets are redeemed or the rights to receive cash flows from the assets have otherwise expired, or the Bank has transferred substantially all the risks and rewards of ownership or has not transferred and retained basically all the risks and rewards of ownership but has ceased to exercise control. Control is retained if a counterparty does not have the practical ability to sell the asset to an unrelated third party without additional restrictions on resale.

Financial liabilities. A financial liability is derecognized when it is discharged or canceled or expires. When one existing financial liability is replaced by another to the same lender on substantially different terms, or when the terms of existing liabilities change, the initial liability is withdrawn from the account with subsequent recognition of a new financial instrument, and the difference between the respective carrying amounts is recognized in the statement of comprehensive income.

Note 4.6. Cash and cash equivalents

Cash and cash equivalents. Cash and cash equivalents are assets which can be converted into cash at short notice and which have low risk of change in value. Cash and cash equivalents are unrestricted balances on correspondent accounts with the National Bank of Ukraine and other banks with maturity up to three months, which may be freely converted to the respective amount of cash in a short period of time, as well as deposits and overnight loans at banks, for which interest does not accrued and provisions for depreciation of possible losses under credit transactions are not formed.

Note 4.7. Due from other banks

Due from other banks are short-term deposits and loans, as well as overnight loans and deposits, for which interest is accrued and provisions for depreciation of possible losses under credit transactions are formed.

For the purposes of reporting in "Due from other banks", Bank account balances on correspondent accounts in other banks, on which there is an interest and /or formed provisions for impairment of possible losses on credit operations.

Note 4.8. Loans and advances to customers

Loans and advances to customers represent non-derivative financial assets with fixed or determined payments, which are not quoted (listed) in an active market, except for assets classified as other categories of financial assets.

Loans granted by the Bank are initially recognized at fair value plus related transaction costs. Subsequently, loans are carried out at amortized cost using the effective interest rate method. Loans to customers are recognized net of any allowance for impairment losses. Interest income and impairment losses are recognized in profit and loss. In case of uncertainty regarding the possibility of loans repayment, their value is reduced to the present value of the expected cash flows and interest income is thereafter recorded based on the effective interest rate on this instrument used to measure the impairment loss. In this case, the accrued interest on such instrument is calculated based on the cost of the instrument taking into account the provision for impairment.

Lending commitments. The Bank undertakes credit commitments including financial guarantees. A financial guarantee is an irrevocable undertaking of the Bank to pay a certain amount to the beneficiary of the guarantee within the specified limits of the guarantee if the Bank's customer who has requested the Bank to issue such guarantee has failed to fulfil his obligations towards the beneficiary.

Note 4.9. REPO contracts

The Bank recognizes REPO contracts as granted (received) loans backed by securities and accounts for at amortized cost.

The Bank continues to recognize the securities sold under REPO contracts with prohibition of sale or grant as collateral in the trading portfolio or securities portfolio available-for-sale. If a REPO contract gives a buyer the right to sell securities or pledge them as collateral, the Bank reclassifies such securities into receivables for securities.

Note 4.10. Available-for-sale securities in the Bank portfolio

During the reporting year, the Bank portfolio of available-for-sale securities comprised treasury bonds, deposit certificates of the National Bank of Ukraine and the bonds of economic entities.

According to the Bank internal documents, the Bank may apply, depending on the intention of acquisition and retention capabilities, such types of securities valuation owned by the Bank: at fair value or at acquisition cost (cost).

Securities accounted for at cost: shares and other securities with variable income, for which fair value cannot be estimate reliably.

Purchased securities are initially measured and stated at fair value, plus the cost of acquisition of such securities. At each balance sheet date subsequent to initial recognition available for sale securities are stated at fair value.

The fair value of securities traded on organized markets is determined by their market value. If quoted market prices for securities are not available, the Bank uses the following methods to determine the fair value:

- a reference to the market price of a similar instrument;
- analysis of discounted cash flows using KIACR.

All available-for-sale securities at the reporting date are subject to review for impairment. The Bank recognizes impairment of securities in case of loss of economic benefits in the amount of excess of the carrying amount of securities over the recoverable amount. Provisions for impairment of securities are created monthly in accordance with the expectations

approved by the decision of the Credit Committee. At the year-end, the Bank recognized no impairment of available-for-sale securities.

Debt securities recognized by the Bank as bad debts are written off against reserves according to the decision of the Management Board.

During 2017, the Bank carried out transactions under REPO contracts accounted for as credit transactions with the recognition of interest income and continued recognition of available-for-sale securities under REPO transactions.

Note 4.11. Held-to-maturity securities in the Bank portfolio

Held-to-maturity securities in the Bank portfolio are initially recognized at fair value with the disclosure of income and expenses related to the acquisition at the discount/premium accounts. At each subsequent reporting date, the securities are measured at amortized cost using the effective interest rate and are subject to review for impairment (as the difference between the asset's carrying amount and the present value of estimated future cash flows).

The Bank does not form provisions for securities issued by the central executive authorities and the National Bank of Ukraine.

During 2017, the Bank's portfolio of held-to-maturity securities comprised only deposit certificates of the National Bank of Ukraine and bonds of USA State Treasury.

Note 4.12. Fixed assets

Fixed assets and other non-current tangible assets are accounted for in accordance with the requirements of the Regulations on financial accounting of fixed assets and intangible assets. The fixed assets are recognized by the Bank at the historical cost. The cost of acquired fixed assets and other non-current tangible assets includes all expenses associated with the acquisition, delivery, installation and putting into operation. Administrative and other expenses not directly related to an acquired asset or its putting into operation were not included to the historical cost of an asset. Assets' current repair and maintenance expenses expensed as incurred and did not affect the carrying amount of non-current assets.

According to the Bank's accounting policies, non-current tangible assets with historical cost of up to UAH 6000.00 and a useful life exceeding one year were recognized as non-current tangible assets of low-value.

Depreciation of fixed assets and other non-current tangible assets is performed every month. For assets acquired depreciation is calculated from the 1st day of the month following the month of acquisition, and for assets disposed depreciation terminates from the 1st day of the month following the month of disposal.

Depreciation is calculated on a straight-line basis. The residual value of fixed assets is assumed to be zero.

In the estimation of the useful lives of the assets the following criteria were taken into account: prior experience operating with similar assets, current status of assets, asset repairs and maintenance issues, current trends in engineering. During the annual inventory of fixed assets, the Bank replaces the expected economic benefits from the use of fixed assets.

The Bank's accounting policies for 2017 provide for the following useful lives of fixed assets:

- machinery and equipment - 5 years;
- furniture and fixtures - 4 years;
- other non-current tangible assets – 2,5 years (according to the term of the premises lease agreement).

The acquired non-current tangible assets of low value are depreciated in the first month of the asset's use in the amount of 100% of its value.

Note 4.13. Intangible assets

Intangible assets are measured and accounted for at cost, which comprise the actual cost of acquisition (production) and bringing to a state in which they are suitable for use according to the intended purposes.

Depreciation is calculated monthly using a straight-line method under the norms set according to useful lives of corresponding assets. The useful life of an intangible asset is established by the Bank independently taking into account the following criteria: prior experience operating with similar assets, current trends in software development, performance characteristics.

Finite useful lives of intangible assets are approved by the commission of the Bank, but not more than 10 years. The largest share of intangible assets constitute assets with useful lives of 10 years.

In 2017, during conduction of the annual inventory of intangible assets, the Bank neither changed the expected economic benefits from the use of intangible assets and fixed assets, nor reviewed deadlines of useful lives for commissioned intangible assets.

Note 4.14. Derivative financial instruments

A derivative is a financial instrument or other contract with the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
- it requires no initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

A derivative instrument is recognized as a financial asset or financial liability on the date of obligation regarding purchase or the sale of a contract subject. Derivative financial instruments include currency swaps, forward transactions, foreign exchange spot transactions and combinations of these instruments.

Derivative financial instruments are recognized at fair value through profit or loss. Derivatives are carried as assets when their fair value is positive or as liabilities when their fair value is negative. The fair value of derivatives that are not sold and not acquired in an active market is determined using valuation techniques.

During 2016, the Bank performed no hedging transactions.

Note 4.15. Funds raised

Due to other banks are recognized upon the receipt of funds by the Bank. Non-derivative financial liabilities are accounted for at amortized cost.

Due to customers comprise non-derivative financial liabilities to government and corporate customers, individuals, and are accounted for at amortized cost.

The Bank recognizes interest expenses on borrowed funds at least once a month in profit or loss and other comprehensive income (statement of comprehensive income).

Note 4.16. Provisions for liabilities

Provisions for liabilities are determined and recognized in the financial statements when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Note 4.17. Income tax

Current income tax and deferred income tax are determined and recognized in the financial statements separately.

Current income tax and deferred income tax are recognized as expenses or income in the statement of comprehensive income, except for income tax assessed in respect of the revaluation of assets to the fair value which is recorded as the Bank's' capital.

Income tax rate amounts to 18%.

Deferred tax was accrued at the rate of 18% for general transactions and securities trading operations.

Deferred tax assets were recognized in the amount of expenses to be included in taxation of subsequent periods:

- in excess of the residual value of fixed assets and intangible assets in the tax records over the cost in financial accounting.

Deferred tax liabilities were recognized in the amount of income to be included in taxation of subsequent periods:

- in excess of the available-for-sale securities portfolio value in the financial accounting over the purchase cost in tax accounting.

In 2017 the Bank recorded the taxable amount of UAH 122 307 thousand.

Note 4.18. Share capital

The share capital represent liabilities regarding cash contributions paid by the Shareholders the amount of which is determined in the statutory manner.

According to the Laws of Ukraine "On Banks and Banking Activity" and "On Joint Stock Companies" and the Bank's Charter, the decision on equity issue is taken at the General Meeting of the Shareholders.

Note 4.19. Dividends

Dividends represent a portion of the Bank's profit distributed between the Shareholders based on each of their shares to the extent determined by the General Meeting of the Shareholders within a period not later than six months after the end of the reporting year. Bank pays dividends entirely in cash.

Note 4.20. Income and expense recognition

Income and expenses are recognized according to the principles of accrual, correspondence of income and expenses, prudence.

Income and expenses are recognized by the Bank, provided there is a high probability that the Bank will receive economic benefits.

As a result of operating activities the following income and expenses arise at the Bank:

- interest income and expenses;
- fee and commission income and expenses;
- profits (losses) on trading transactions;
- dividend yield;
- cost of formation of special provision;
- income from repayment of assets previously written off;
- other operating income and expenses;
- general administrative expenses;
- income tax.

Interest income and expenses are operating income and expenses obtained (paid) by the Bank for the use of cash, cash equivalents or amounts owed to the Bank (raised by the Bank), amounts of which are calculated in proportion to time using the effective interest rate. They include:

- income (expenses) from operations with funds placed in other banks (attracted from other banks);
- income (expense) on loans and deposits granted (received) to legal entities and individuals, and on other financial instruments, including securities;
- income in the form of a discount (premium) amortization.

Interest and related commissions are charged at least once a month, irrespective of the actual frequency of settlements with a counterparty stipulated by an agreement.

Fee and commission income and expenses (hereinafter – "the commissions") - operating income and expenses for provided (received) services, the amount of which is calculated in proportion to the amount of an asset or liability, or is fixed. The commissions for provided (received) services depending on the purpose of evaluation and accounting base of an associated financial instrument are divided into:

- the commissions that are an essential part of income (expenses) of a financial instrument;
- the commissions received (paid) at the time of service provision are recognized as income (expenses);
- the commissions received (paid) after certain actions are recognized as income (loss) after completion of a certain operation.

Fee and commission income (expenses) for services provided continuously (cash management services) were accounted for during the whole contractual period.

Profits (losses) from trading operations – a result (profit or loss) from operations of purchase and sale of various financial instruments. The Bank recognizes profits and losses regarding securities transactions, foreign currency transactions, bullion (banking metals) transactions from:

- sale of financial investments;
- changes in valuation (revaluation) of investments to fair value;
- assets and liabilities revaluation result in foreign currency and banking metals in case of a change of the official UAH rate against foreign currencies (banking metals).

Dividend yield - income generated from the Bank's use of securities with variable income.

Expenses on the special provisions formation are expenses to cover possible losses from the Bank's assets impairment and bad assets write-off.

Income from repayment of assets previously written off are the funds obtained for debt repayment recognized by the Bank as a bad debt.

Other operating income and expenses are income and expenses from transactions not related to investing and financing activities, as well as those not included in the above groups of operating income and expenses, including:

- income (loss) from operating leasing;
- expenses for audit services;
- cash collection expenses;
- forfeit (penalties, fines) received (paid) for banking operations, others.

General administrative expenses are operating expenses incurred to ensure that the Bank will be able to continue as a going concern. These include staff costs (salaries, social security costs, mandatory charges, insurance, additional payments, bonuses, training, etc.); amortization of intangible assets; costs of maintenance and operation of fixed and intangible assets (repairs, insurance); other operating expenses (utilities, security, etc.); fees for

professional services (legal, etc.); communication costs (postage, telephone, etc.); payment of taxes and other mandatory payments, other than income tax, and other expenses aimed at maintenance and management of the Bank.

Income tax – the Bank's operating expenses related to tax payment in accordance with the current legislation of Ukraine and the requirements of international accounting standards and national regulations (standards) of accounting regarding the recognition of deferred tax liabilities and tax assets.

Income and expenses recognized by the Bank are grouped according to their nature in the relevant items of the financial statements in the "statement of comprehensive income". In order to determine the financial result of the reporting period the income of the reporting period is reconciled with the expenses incurred to obtain this income. Income and expenses are accounted for as incurred, regardless of the date of receipt or payment of cash assets. Income and expenses of the Bank are accounted for using the basic accounting principles, in particular, accrual, matching and prudence concepts.

Note 4.21. Foreign currency revaluation

Income and expenses in foreign currencies were disclosed in the statement of comprehensive income at the official foreign exchange rate set by the National Bank of Ukraine at the transaction date. Foreign exchange differences arising in respect of foreign currency transactions are recognized as income or expenses of the reporting period.

The Bank's assets and liabilities in foreign currencies are stated at the official foreign exchange rate as at the reporting date as follows:

840=USD=100=UAH 2806.7223

978=EUR=100=UAH 3349.5424

The official foreign exchange rates as at 31 December 2017 were as follows:

840=USD=100=UAH 2806.7223

978=EUR=100=UAH 3349.5424

Monetary balance sheet items in foreign currencies are accounted for using the current foreign exchange rate; non-monetary items stated at historical cost, deposit of which to the balance is related to a foreign currency transaction, are accounted for at the foreign exchange rate at a transaction date. All foreign currency accounts are revalued every time the official foreign currency rate of the National Bank of Ukraine changes.

The Bank's Management policy regarding the risk of losses due to changes in foreign exchange rates is disclosed in Corporate information and Financial risk management.

Note 4.22. Mutual offset of assets and liabilities

Financial assets and liabilities with subsequent inclusion in the statement of financial position of only their net amount can be mutually offset only if there is a legally enforceable right to offset the recognized amounts, if there is an intention to settle a transaction on a net basis or to realize simultaneously an asset and settle a liability.

The Bank did not offset assets and liabilities during the reporting period.

Note 4.23. Employee benefits and related charges

The Bank recognizes expenses for employee benefits at least once a month in profit and loss and other comprehensive income. These payments include principal and additional salaries, payment of annual principal and additional vacations, compensation for the first 5 days of temporary disability, bonuses and rewards, an allowance for unused vacations, costs for occupational pension scheme, payroll tax and social security tax costs.

Note 4.24. Business segment reporting

The Bank primarily focuses on one business segment, namely treasury operations, which includes:

- activities in the monetary market regarding attraction and investment of funds in the interbank market of Ukraine;
- foreign exchange market services including foreign currency transactions at the customers' disposal and at the Bank's expense.
- transactions with securities in the Bank's portfolio.

Other operations comprised assets (liabilities) not included in the main segment, such as cash, correspondent accounts in the National Bank of Ukraine, liabilities related to the administrative and economic activities of the Bank, settlements with employees, settlements in respect of taxes and levies to the state and local budgets, to the Pension Fund, other extra budgetary funds.

During 2017, the Bank did not apply transfer pricing methods in the preparation of financial statements by business segments, given the characteristics of the organizational structure.

Note 4.25. Significant accounting estimates and assumptions

The Bank in its operational, financial, investment and economic activities makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually revised and are based on the Management's experience and other factors, including expectations of future events that are considered to be reasonable for the circumstances. In addition to the judgments that provide for estimates, the Management also uses assumptions in applying the accounting policies. The results of review of estimates and assumptions are recognized in the review period and valid until the next revision of estimates and assumptions.

Assumptions that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause significant adjustments to the carrying amount of assets and liabilities within subsequent financial periods include:

Related party transactions

In the normal course of business, the Bank enters into transactions with related parties. In the absence of an active market for such transactions, assumptions are used. The basis for assumptions is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Initial value of financial instruments

The Bank shall account for financial instruments at fair value at initial recognition. In the absence of an active market for the relevant financial instruments to determine their market (non-market) rates, assumptions are used on the basis of agreements between independent, knowledgeable, and interested parties.

Going concern

The fundamental assumption of the financial statements' preparation is the going concern assumption - the Bank prepares its financial statements on the assumption that it is able to continue its activities in the foreseeable future as a going concern, has neither the intention nor the need for the elimination or significant reduction in the volume of transactions.

Note 4.26. Related party transactions

During 2016, the Bank carried out transactions with related parties, detailed information regarding which is disclosed in the relevant note.

Note 5. Standards issued but not yet effective

Standards adopted by the Bank as at 1 January 2017:

IAS 7 - "Disclosure Initiative". This standard requires companies to disclose information about changes in financial performance liabilities;

IAS 12 - "Recognition of deferred tax assets in respect of unrealised losses". The innovation explains how to recognize deferred tax assets related to debt instruments recognised at fair value.

Minor amendments to IAS 12 were introduced as part of the Annual IAS Improvement Project, for the period 2012-2014.

Adoption of new or revised standards did not have any effect on the financial situation or performance of the Bank or disclosure of information in financial statements of the Bank.

STANDARTS ISSUED, BUT NOT YET EFFECTIVE

As at the date of approval of these financial statements, such standards and interpretations, as well as amendments to the standards were issued, but not yet effective:

IFRS 9 "Financial Instruments" becomes effective from 1 January 2018.

In July 2014, International Accounting Standard Board I issued the final version of IFRS 9 "Financial Instruments" that supersedes IAS 39 Financial Instruments: recognition and measurement" and all previous versions of IFRS 9. IFRS 9 combines together three parts of the project on accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but comparative information is not compulsory. The requirements for hedge accounting are mainly applied prospectively, with some limited exceptions.

(a) Classification and Measurement

The Bank plans to continue to measure at fair value all financial assets currently accounted for at fair value.

Loans and advances to customers are preserved to receive contractual cash flows and they are expected to result in cash flows being solely principal and interest payments. Consequently, the Bank expects that they will continue to be accounted for at amortized cost under IFRS 9.

(b) Hedge Accounting

The Bank currently does not perform hedging transactions, accordingly a significant impact as a result of IFRS 9 adoption is not expected.

IFRS 15 «Revenue from contracts with customers» becomes effective as at 1 January 2018.

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new standard on revenue recognition replaces any current requirements to revenue recognition contained in other IFRSs. The standard requires either a full retrospective approach or a modified retrospective approach for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank plans to apply the full version of the retrospective approach of the new standard from the required effective date. In 2016-2017,

the Bank conducted a preliminary assessment of the impact of IFRS 15, the results of which may be found within a more detailed continuing analysis.

IFRS 15 contains more detailed requirements for the presentation and disclosure of information compared to existing IFRS. Presentation requirements introduce significant changes to existing practices and significantly increase the amount of information required for disclosure in the financial statements. A number of disclosure requirements in IFRS 15 are brand new.

IFRS 16 «Leases» becomes effective as at 1 January 2019.

IFRS 16 was issued in January 2016 and substantially carried forward IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC Interpretation 15 Operating Leases - Incentives and SIC Interpretation 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases and requires that all lessees used a single lessee accounting model, similarly to the accounting procedure stipulated in IAS 17 for finance lease. The standard provides for two recognition exemptions – leases where the underlying asset has a low value (such as personal computers) and short-term leases (leases with a lease term of 12 months or less). At the inception of the lease the lessee shall recognize the liability for lease payments (leasing obligation) and asset representing the right to use the underlying asset during the lease term (i.e., assets in the form of right to use). Lessees will be required to recognize depreciation of lease assets separately from interest on lease liabilities in the income statement.

Lessees will also have to reassess lease obligations upon the occurrence of certain events (such as changes in lease terms, changes in future lease payments due to changes in indices or rates used to determine these payments). In most cases, the lessee will consider revaluation surplus of a lease obligation as the adjustment of an asset in the form of a right to use.

IFRS 16's approach to lessor accounting remained substantially unchanged from its predecessor, IAS 17. Lessors will continue to classify leases using the same principles of classification as in IAS 17, distinguishing two types of leases: operating and finance.

In addition, IFRS 16 requires lessors and lessees to disclose a larger volume of information than IAS 17 does.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted, but not before the date of adoption of IFRS 15. A lessee has the right to apply this standard using a retrospective approach or a modified retrospective approach. The transitional provisions provide for certain exemptions.

The Bank is currently assessing the possible impact of application of IFRS 16 on the financial statements.

IFRS 17 «Insurance contracts» becomes effective as at 1 January 2018.

Amendments and interpretation to existing standards were made. These amendments are as follows:

Amendments were made to IFRS 10 and IFRS IAS 28 "Sale or contribution of assets in transactions between an investor and its associate organization, or joint venture". Date of application of this edit has not yet been determined.

The amendments consider the contradictions between IFRS 10 and IAS 28 in relation to the loss of control of a subsidiary that is sold to affiliates or joint venture or give back to them. The amendments clarify that the profit or loss arising from the sale or contribution of assets that constitutes a business as defined in IFRS 3, the agreement between the investor and his affiliated organization or joint venture is recognised in full. However, the profit or loss arising from the sale or contribution of assets that do not constitute a business is recognised only to

the extent of shares available to other than the organization investors in affiliates or joint venture. These amendments indefinitely postponed. It is expected that these amendments will have no impact on the financial statements.

Amendments to IFRS 2 "Classification and measurement of transactions for payments based on shares" become effective as at 1 January 2018.

The IASB issued amendments to IFRS 2 "Payments based on shares", in which the three main aspects: the impact of vesting conditions on measurement of transactions for payment based on shares with settlement funds; classification of operations to payments based on shares with the condition of calculations on a net basis for liabilities tax withheld at the source; the changing environment payment transactions based on shares, in result of which the operation ceases to be classified as operation cash settlements and begins to be classified as a transaction with settlement in equity instruments.

Organizations are not required to list information for previous periods, however, retrospective application subject to the application of the amendments in respect of all three aspects, and compliance with other criteria is permitted. The amendments are effective for annual periods beginning on 1 January 2018 or after that date. Allowed to use before that date. Now the Bank management assesses the effect of these amendments and standards on future financial statements of the Bank

Amendments to IFRS 4 – "Adoption of IFRS 9 "Financial instruments" - IFRS 4 "Insurance contracts" become effective as at 1 January 2018.

Amendments to IFRS 1 and IAS 28 become effective as at 1 January 2018.

Amendments to IAS 40 «Investment Property" become effective.

Amendments to IAS «Investments in Associates and Joint Ventures" become effective as at 1 January 2018.

Amendments to IFRS 9 " Prepayments features with negative compensation" become effective as at 1 January 2018.

The program "Annual improvements of IFRS, the period 2015-2017" becomes effective as at 1 January 2018.

Interpretations and Explanations issued but not yet effective:

Interpretation IFRIC 22 «Foreign Currency Transactions and Advance Consideration» becomes effective as at 1 January 2018

Explanation to IFRS 15 «Revenue from contracts with customers» becomes effective as at 1 January 2018

Interpretation IFRIC 23 «Uncertainty over Income Tax Treatments» becomes effective as at 1 January 2019

Management is currently assessing impact of adoption of IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Lease" and according to Management, their adoption will not cause significant impact on the Bank's financial statements in future periods. In particular, the expected impact of adoption of IFRS 9 as at 1 January 2018 is UAH 3 thousand in terms of increasing the expenditure on creation of reserves.

(in UAH thousand)

6. Cash and cash equivalents

	2017	2016
Cash with the National Bank of Ukraine	25 203	31127
Total cash and cash equivalents	**25 203**	**31127**

Cash and cash equivalents for the purposes of preparation of statement of cash flows:

	2017	2016
Cash with the National Bank of Ukraine	25 203	31 127
Due to other banks	125 452	450 275
Total cash and cash equivalents	**150 655**	**481 402**

7. Financial assets that are recognized at fair value through profit or loss

Table 7.1. Financial assets that are recognized at fair value through profit or loss

	2017	2016
Assets under forward agreements	482	253
Assets under future agreements	10	-
Assets under contracts under terms of SWAP	231	
Total financial assets that are recognized at fair value through profit or loss	**723**	**253**

In connection with the increase of the number of operations with derivative financial instruments in 2017 the Bank has classified the amount of such operations in the "Statement of financial condition" in the article " *Financial assets that are recognized at fair value through profit or loss* " and also carried out a retrospective adjustment of "Statement of financial position" for 2016 which has led to the emergence of a separate article " *Financial assets that are recognized at fair value through profit or loss* " in the amount of UAH 253 thousand. and a reduction in the amount under "Other financial assets" for UAH 253 thousand. Viewing of value of such instruments was not conducted.

(in UAH thousand)

8. Due from other banks

Table 8.1. Due from other banks

	2017	2016
Correspondent accounts at other banks	125 497	450 328
Purchase and reverse sale contracts	-	-
Due to other banks	179 245	248 917
Provisions for impairment of due from other banks	(75 640)	(135 610)
Total due from other banks less provisions	**229 102**	**563 635**

Bank balances are placed at correspondent accounts with resident banks of Ukraine, not adjudged bankrupt or under liquidation, or forced into temporary administration.

The structure of due from other banks comprises interest in the amount of UAH 291 thousand as at 31 December 2017.

Table 8.2. Loan quality analysis related to due from other banks as at 31 December 2017

	Correspondent accounts	Loans	Total
Undue and non-impaired:	125 497	179 245	**304 742**
with 20 largest banks of Ukraine	97 702	153 208	**250 910**
with other banks of Ukraine	27 795	26 037	**53 832**
with large banks of OECD countries	-	-	**-**
Provisions for impairment of due from other banks	(44 738)	(30 902)	**(75 640)**
Total due from other banks less provisions	**80 759**	**148 343**	**229 102**

Table 8.3. Analysis of changes in provisions for impairment of due from other banks

	2017	2016
Provisions for impairment as at the beginning of the period	(135 610)	(134 070)
Increase/decrease in provision for impairment during the year	59 970	(1 540)
Provisions for impairment as at the end of the period	**(75 640)**	**(135 610)**

The amount of the reduction of the provision of UAH 59 970 thousand is an integral part of the amount UAH 54 312 thousand in the "Statement of profit or loss and other comprehensive income" ("Net (increase)/decrease in provisions for impairment of due from customers, due from other banks ").

(in UAH thousand)

Note 9. Loans and advances to customers

Table 9.1. Loans and advances to customers

	2017	2016
Loans to legal entities	138 603	52 712
Loans to individuals	666	0
Provision for loan impairment	(14 103)	(8 446)
Total loans to customers less provisions	**125 166**	**44 266**

The structure of loans to legal entities comprises a loan to the Bank's related person in the amount of UAH 14 337 thousand.

Table 9.2. Analysis of changes in loan loss provisions for the reporting period

	Loans to legal entities	Loans to individuals	Total
Opening balance:	(8 446)	0	(8 446)
Increase in provision during the year	(5 564)	(93)	(5 657)
Closing balance	**(14 010)**	**(93)**	**(14 103)**

The amount of the increase of the provision of UAH 5 657 thousand is an integral part of the amount UAH 54 312 thousand in the "Statement of profit or loss and other comprehensive income" ("Net (increase)/decrease in provisions for impairment of due from customers, due from other banks ").

Table 9.3 Loan structure by types of economic activities

	2017		2016	
	amount	%	amount	%
Health care	13 671	10	12 007	23
Rent of other machines, equipment and goods	27 633	20	-	0
Other support activities in the field of transport	21 450	15	-	0
Gas trading through local pipelines	9 873	7	-	0
Wholesale of beverages	65 976	48	40 705	77
Total loans and advances to customers except for provisions	**138 603**	**100**	**52 712**	**100**

Table 9.4. Information on loans within the type of collateral for the reporting period

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	75 849	0	75 849
Loans secured by:	62 754	666	63 420
real estate	7 305	666	7 971
including residential housing	6 755	666	7 421
- property rights for funds in the Bank	49 083	-	49 084
other assets	6 366	-	6 366
Total loans and advances to customers except for provisions	**138 603**	**666**	**139 269**

Collateral value in this Note is indicated in the amount of future expected cash flows from collateral with regard to the collateral's liquidity ratio and implementation costs, according to the internal regulations of the Bank.

Table 9.5. Analysis of loan quality for the reporting period

	Loans to legal entities	Loans to individuals	Total
Undue and non-impaired:	138 603	666	139 269
Loans to large and medium businesses	97 299	-	97 299
Loans to small-sized businesses	41 304	-	41 304
Total loan amount before deducting provisions	138 603	666	139 269
Provisions for loan impairment	(14 010)	(93)	(14 103)
Total loans less provisions	**124 593**	**573**	**125 166**

Table 9.6. Impact of collateral value on loan quality as at the reporting date

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	138 603	49 083	89 520
Loans to individuals	666	-	666
Total loans	**139 269**	**49 083**	**90 186**

When calculating the allowance for impairment of financial instruments to comply with the principle of prudence, the Bank only considers highly liquid collateral, enforced collection of which is more reliable.

(in UAH thousand)

Note 10. Available-for-sale securities in the Bank portfolio

Table 10.1. Available-for-sale securities in the Bank portfolio

	2017	2016
Debt securities	842 228	575 968
Deposit certificates of the National Bank of Ukraine	-	163 043
Government bonds	816 242	412 925
Bank bonds	25 986	-
Provision for impairment of available-for-sale securities in the Bank portfolio	(8 835)	–
Total available-for-sale securities less provisions	**833 393**	**575 968**

The structure of available-for-sale securities comprises accrued interest in the amount of UAH 35 568 thousand as at 31 December 2017.

Table 10.2. Loan quality analysis related to debt securities available-for-sale in the Bank portfolio as at 31 December 2017

	Government bonds	Bank bonds	Total
Undue and non-impaired:	816 242	25 986	842 228
State institutions and enterprises	816 242		816 242
Banks	-	25 986	25 986

Provision for impairment of available-for-sale securities in the Bank portfolio	-	(8 835)	(8 835)
Total debt securities available-for-sale in the Bank portfolio less provisions	**816 242**	**17 151**	**833 393**

Table 9.3. Loan quality analysis related to debt securities available-for-sale in the Bank portfolio as at 31 December 2016

	Government bonds	Total
Undue and non-impaired:	575 968	575 968
State institutions and enterprises	575 968	575 968
Provision for impairment of available-for-sale securities in the Bank portfolio	-	-
Total debt securities available-for-sale in the Bank portfolio less provisions	**575 968**	**575 968**

(in UAH thousand)

Note 11. Held-to-maturity securities in the Bank portfolio

Table 11.1. Held-to-maturity securities in the Bank portfolio

	2017	2016
Deposit certificates of the National Bank of Ukraine	135 139	113 074
Other debt securities	2 807	-
Provisions for impairment of held-to-maturity securities in the Bank portfolio	-	-
Total held-to-maturity securities less provisions	137 946	113 074

Held-to-maturity securities in the Bank portfolio are measured at amortized cost and accrued interest in the amount of UAH 142 thousand as at 31 December 2017.

Table 11.2. Loan quality analysis related to debt securities held-to-maturity in the Bank portfolio as at 31 December 2017

	Government bonds	Total
Undue and non-impaired:	137 946	137 946
State institutions and enterprises	135 138	135 138
State institutions of the USA	2 808	2 808
Provision for impairment of held-to-maturity securities in the Bank portfolio	-	-
Total held-to-maturity securities less provisions	**137 946**	**137 946**

Table 11.3. Loan quality analysis related to debt securities held-to-maturity in the Bank portfolio as at 31 December 2016

	Government bonds	Total
Undue and non-impaired:	113 074	113 074
State institutions and enterprises	113 074	113 074
Provision for impairment of held-to-maturity securities in the Bank portfolio	-	-
Total held-to-maturity securities less provisions	**113 074**	**113 074**

(in UAH thousand)

Note 12. Fixed and intangible assets

As at 31 December 2017, the Bank has no:

- fixed assets, possession, use or disposal of which is restricted by the current legislation;
- fixed assets pledged, withdrawn from service, temporarily not used or transferred to assets for sale;
- intangible assets, ownership of which is restricted or property rights are not registered;
- increase or decrease arising from revaluations and as a result of impairment losses recognized or created directly in equity.

Initial value of fully depreciated fixed tangible assets is UAH 984.3 thousand.

	Machinery and equipment	Instruments, fixtures and fittings	Other fixed tangible assets	Capital investments in progress	Intangible assets	Total
Carrying amount as at 1 January 2016	**516**	**140**	**125**	**11**	**2 245**	**3 037**
Historical cost	816	273	641	11	2 741	4 482
Depreciation	(300)	(133)	(516)	–	(496)	(1 445)
Proceeds	260	-	92	-	42	394
Capital investments into fixed assets completion and intangible assets improvement	7	-	-	(11)	131	127
Disposals		(5)			(1 031)	(1 036)
Accumulated depreciation written-off upon disposal		3			274	277
Amortization charges	(197)	(67)	(217)	–	(270)	(751)
Carrying amount as at 31 December 2016	**586**	**71**	**-**	**-**	**1 391**	**2 048**
Historical cost	1 083	268	733	-	1 883	3 967
Depreciation	(497)	(197)	(733)	-	(492)	(1 919)
Proceeds	180	-	12	-	16	208
Capital investments into fixed assets completion and intangible assets improvement	-	-	-	-	160	160
Disposals	-	-	-	-	(41)	(41)
Accumulated depreciation written-off upon disposal	-	-	-	-	41	41
Amortization charges	(237)	(67)	(12)	-	(200)	(516)

Carrying amount as at 31 December 2017	**529**	**4**	**-**	**-**	**1 367**	**1 900**
Historical cost	1 263	268	745	-	2 018	4 294
Depreciation	(734)	(264)	(745)	-	(651)	(2 394)

(in UAH thousand)

Note 13. Other financial assets

Table 13.1. Other financial assets

	2017	2016
Other including:	277	268
-income for services accrued	277	268
Provisions for other financial assets impairment	(1)	(16)
Total other financial assets less provisions	**276**	**252**

Table 13.2. Analysis of changes in provisions for other financial assets impairment for the reporting period

	Other financial assets	Total
Opening balance:	16	16
(Increase)/decrease of the provisions during the period	(15)	(15)
Closing balance	**1**	**1**

Table 13.3. Analysis of other financial assets loan quality for 2017

	Other financial assets	Total
Undue and non-impaired debt	277	277
Provisions for loan impairment	(1)	(1)
Total other financial assets less provisions	**276**	**276**

Table 13.4. Analysis of other financial assets loan quality for 2016

	Other financial assets	Total
Undue and non-impaired debt	268	268
Provisions for loan impairment	(16)	(16)
Total other financial assets less provisions	**252**	**252**

(in UAH thousand)

Note 14. Other assets

	2017	2016
Prepayments for services	-	3
Deferred expenses	810	1 012
Other	9	25
Provisions for other assets	-	-
Total other assets less provisions	**819**	**1 040**

Note 15. Due to other banks

Table 15.1 Due to other banks

	2017	2016
Money coverage received from banks as collateral provided guarantee	2 194	-
Sale and repurchase agreements with other banks	169 362	86 486
Total due to other banks	**171 556**	**86 486**

Note 16. Due to customers

Table 16.1 Due to customers

	2017	2016
State organizations:	**1 148**	**1 140**
-Current accounts	38	35
-Term deposits	1 110	1 105
Other legal entities:	**793 124**	**1 010 221**
-Current accounts	758 836	973 466
-Term deposits	34 288	36 755
Private individuals:	**58 098**	**8 668**
-Current accounts	7 084	6 513
-Term deposits	51 014	2 155
Total due to customers	**852 370**	**1 020 029**

Table 16.2 Customer funds allocation by economic activities

	2017		2016	
	amount	%	amount	%
Financial and insurance activities	58 785	6,90	313 092	30,69
Services (financial)	309 354	36,29	4 775	0,47
Information and telecommunications	779	0,09	3 621	0,35
Trading	172 950	20,29	57 306	5,62
Agriculture	140	0,02	154	0,02
Fishery	157	0,02	172	0,02
Storage facilities and transportation supporting activities	68 478	8,03	15	0,00
Mining	57 699	6,77	280 238	27,47
Electricity supply	2 314	0,27	38 464	3,77
Consulting	-	0,00	1	0,00
Government organizations	1 148	0,13	1 140	0,11
Production	100 434	11,78	276 404	27,10
Health care	136	0,02	337	0,03
Property transactions	19 230	2,26	9 670	0,95
Private individuals, including non-residents	58 098	6,82	8 668	0,85
Investors-non-residents	2 668	0,31	25 972	2,55
Total customer funds	**852 370**	**100,00**	**1 020 029**	**100,00**

17. Financial liabilities that are recognized at fair value through profit or loss

Table 17.1. Financial liabilities that are recognized at fair value through profit or loss

	2017	2016
Liabilities under forward agreements	1 863	1 705
Liabilities under contracts under terms of SWAP	44	-
Total financial liabilities that are recognized at fair value through profit or loss	**1 907**	**1 705**

In connection with the increase the number of operations with derivative financial instruments in 2017 the Bank has classified the amount of such transactions in the "statement of financial condition" in the article "Financial liabilities that are recognized at fair value through profit and loss", and made retrospective adjustment of "Statement of financial position" for 2016 , which has led to the emergence of a separate article " Financial liabilities that are recognized at fair value through profit and loss " in the amount of UAH 1 705 thousand and a decrease in the amount under "Other financial liabilities" of UAH 1 705 thousand. The revision of the cost of such instruments was not conducted.

(in UAH thousand)

Note 18. Other financial liabilities

	2017	2016
Accounts payable for foreign currency transactions	2 998	5 216
Accounts payable for customer transactions	737	5
Accounts payable for accrued expenses	60	29
Other financial liabilities	4	-
Total	**3 799**	**5 250**

Note 19. Provisions for liabilities

	Loan liabilities	Total
Opening balance	170	170
Creation and/ or increase of provisions	(70)	(70)
Fees and commissions received for guarantees issued	-	-
Depreciation of fees and commissions received for guarantees issued recognized in the Statement of comprehensive income	-	-
Closing balance	**100**	**100**

Provisions for liabilities consist of reserves for possible impairment losses on provided financial guarantees with maturity in 2018.

Note 20. Other liabilities

	2017	2016
Accounts payable for settlements with employees	5 382	3 805
Accounts payable for taxes and charges apart from income tax	127	24
Other accounts payable	-	10
Expenses for telecommunication and operation services	45	35
Total	**5 554**	**3 874**

Note 21. Share capital

(in thousand shares)

	Number of shares in circulation (ths. pcs.)	Ordinary shares	Preferred shares	Total
Balance as at 1 January 2017	122 000	122 000	–	122 000
Contributions on newly issued shares (unit shares, stocks)	-	-	–	-
Balance as at 31 December 2017	122 000	122 000		122 000
Balance as at 31 December 2017	**122 000**	**122 000**		**122 000**

As at 31 December 2017, the share capital amounts to UAH 208 498 thousand. The share capital is divided into 122 000 ordinary registered shares paid in full. During the year the Bank registered an increase in ordinary registered share denomination by means of profits of previous years; an ordinary registered share denomination at the end of 2017 amounted to UAH 1 709.

Ordinary registered shares entitle a shareholder to participate in the management of the Bank, receive dividends, use the preferential right to purchase additionally issued shares if such shares are privately placed, dispose own shares, receive in case of liquidation of the Bank a part of its assets or value of assets. One ordinary share gives the shareholder one voice to address every issue at the General Meeting, except in cases of cumulative voting. Payment of dividends to shareholders based on each of their shares of a certain type is made of net profit for the reporting year and/or retained earnings in the amount determined by the Decision of the General Meeting within a period not later than six months after the end of the year. The Bank pays dividends entirely in cash.

There was no repurchase of own stock during the reporting period. Dividends were not declared to be payable and were not paid accordingly.

Note 22. Revaluation reserves (other comprehensive income components)

	2017	2016
Revaluation of available-for-sale securities in the Bank portfolio:	(2 688)	(96)
Revaluation changes to fair value	(2 688)	(96)
Income tax related to:	**484**	**17**
Change in reserve for revaluation of available-for-sale securities in the bank portfolio	484	17
Total revaluation reserves (other comprehensive income)	**(2 204)**	**(79)**

(in UAH thousand)

Note 23. Analysis of assets and liabilities by maturities

	(Note)	2017 Less than 12 months	2017 More than 12 months	2017 Total	2016 Less than 12 months	2016 More than 12 months	2016 Total
Assets							
Cash and cash equivalents	6	25 203	-	25 203	31 127	-	31 127
Financial assets that are recognized at fair value through profit or loss		723	-	723	253		253
Due from other banks	7	229 102	-	229 102	563 635	-	563 635
Loans to customers and customer debts	8	117 348	7 818	125 166	38 262	6 004	44 266
Available-for-sale securities in the Bank portfolio	9	833 393	-	833 393	575 968	-	575 968
Held-to-maturity securities in the Bank portfolio	10	137 946	-	137 946	113 074	-	113 074
Income tax receivables	26	-	578	578	1 172	105	1 277
Fixed assets	11	-	1 900	1 900	-	2 048	2 048
Other accrued income	12	276	-	276	252	-	252
Other assets	13	819	-	819	683	357	1 040
Total assets		**1 344 810**	**10 296**	**1 355 106**	**1 324 426**	**8 514**	**1 332 940**
Liabilities							
Due to other banks	14	171556	-	171556	86 486	-	86 486
Due to customers	15	852 370	-	852 370	1020 029	-	1020 029
Financial liabilities that are recognized at fair value through profit or loss		1 907		1 907	1 705		1 705
Accounts payable	18	14 234	-	14 234	6 247	-	6 247
Other financial liabilities	16,17	3 899	-	3 899	5 420	-	5 420
Total liabilities		**1 043 966**	**-**	**1 043 966**	**1 119 887**	**-**	**1 119 887**

(in UAH thousand)

Note 24. Interest income and expenses

	2017	2016
ıterest income:		
ebt securities available for sale in the Bank portfolio	93 098	61 695
ebt securities held to maturity in the Bank portfolio	9 985	2 672
ue from other banks	9 389	17 756
orrespondent accounts in other banks	1 303	2 489
ɔans and advances to customers	13 227	7 884
Total interest income	**127 002**	**92 496**
ıterest expenses:		
ɹnds received from the NBU	-	(6)
ɜrm deposits to other banks	(8 075)	(23 103)
ɜgal entities term deposits	(3 753)	(4 357)
urrent accounts	(48 584)	(25 972)
ɨivate individuals term deposits	(340)	(287)
ɔtal interest expenses	**(60 752)**	**(53 725)**
et interest income/(expenses)	**66 250**	**38 771**

Note 25. Fee and commission income and expenses

	2017	2016
Fee and commission income		
Settlement and cash transactions	3 715	2 873
Currency market trading	6 485	4 761
Guarantee transactions	1 284	670
Other	18	4
Total fee and commission income	**8 308**	**8 308**
Fee and commission expenses		
Settlement and cash transactions	(795)	(1 802)
Securities trading	(30)	(34)
Other	(8)	(15)
Total fee and commission expenses	**(833)**	**(1 851)**
Net fee and commission income/expense	**10 669**	**6 457**

(in UAH thousand)

Note 26. Administrative and other operating expenses

	2017	2016
Staff costs	(20 978)	(17 415)
Fixed and intangible assets maintenance	(918)	(763)
Operating leasing (rent)	(774)	(684)
Depreciation and amortization	(516)	(751)
Audit expenses	(279)	(123)
Communication expenses	(1 804)	(1 716)
Other taxes and mandatory fees, except for income tax	(268)	(170)
Charity costs	(200)	(100)
Costs on data storage services	(475)	(394)
Operating and household services	(556)	(527)
Costs of voluntary medical insurance of employees	(190)	(182)
Negative result on disposal of fixed assets	-	(758)
Other	(1 236)	(715)
Total administrative and other operating expenses	**(28 194)**	**(24 298)**

Average number of the Bank's employees in 2017 amounted to 25 persons.
The structure of staff costs includes:

- salaries and wages amounting to UAH 17 567 thousand;
- formation of allowance for unused vacations - UAH 1 169 thousand;
- social security tax - UAH 2 101 thousand;
- contributions to non-state pension provision - UAH 133 thousand.
- Costs for employees training - UAH 8 thousand.

Note 27. Result from liability transactions at fair value through profit or loss

Table 27.1 Result from liability transactions at fair value through profit or loss for 2017

	Gains less losses for transactions with other financial liabilities
Derivative financial liabilities	(3 898)
Total result from liability transactions at fair value through profit or loss	**(3 898)**

Table 27.2 Result from liability transactions at fair value through profit or loss for 2016

	Gains less losses for transactions with other financial liabilities
Derivative financial liabilities	5 395
Total result from liability transactions at fair value through profit or loss	**5 395**

Note 28. Income tax expenses

Table 28.1 Income tax expenses

	2017	2016
Current income tax	(22 000)	(10 651)
Change of deferred income tax	(12)	(24)
Income tax, paid from foreign income at the source of payment	(4)	-
Total income tax expenses	**(22 016)**	**(10 675)**

Table 28.2 Reconciliation of accounting income/loss and taxable income/loss

	2017	2016
Income before tax	122 307	59 235
Theoretical tax liabilities at the relevant tax rate	(22 015)	(10 662)
Expenses not included in the amount of taxable income, but recognized in accounting records aiming at calculation of:	8	(31)
expenses for reserve formation	15	(5)
administrative expenses	(7)	(26)
Costs that are not included in financial income, but are recognized in tax accounting	3	-
Expenses of past periods, which are recognized in the tax accounting of the current period	4	42
Change in deferred income tax	(12)	(24)
Income tax, paid from foreign income at the source of payment	(4)	-
Amount of income tax expenses	**(22 016)**	**(10 675)**

Table 28.3.1 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2017

	Balance as at 31 December 2016	Recognized in statement of comprehensive income	Recognized in equity	Balance as at 31 December 2017
Deferred tax asset due to:				
Excess of acquisition cost in tax accounting over cost of securities in the Bank portfolio	17	-	484	501
Depreciation allowance	77	(5)	-	72
Formation of allowance for unused vacations	11	(7)	-	4
Net deferred tax asset/(liability)	**105**	**(12)**	**484**	**578**

Table 28.3.2 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at 31 December 2016

	Balance as at 31 December 2015	Recognized in statement of comprehensive income	Recognized in equity	Balance as at 31 December 2016
Deferred tax asset due to:				
Excess of acquisition cost in tax accounting over cost of securities in the Bank portfolio	-	-	17	17
Depreciation allowance	59	18	-	77
Formation of allowance for unused vacations	53	(42)	-	11
Net deferred tax asset/(liability)	**112**	**(24)**	**17**	**105**

Note 29. Profit/(loss) per one ordinary and preferred share

Table 29.1 Net and adjusted profit/(loss) per one ordinary and preferred share

	2017	2016
Profit /(loss) attributable to Bank ordinary Shareholders (UAH thousand)	100 291	48 560
Annual profit/(loss) (UAH thousand)	100 291	48 560
Average annual number of ordinary shares outstanding (thousand, pcs)	122	122
Net profit/ (loss) per an ordinary share (UAH)	**822,06**	**398,03**
Adjusted net income/ (loss) per an ordinary share, UAH	**822,06**	**398,03**

Table 29.2 Calculation of profit/(loss) attributable to the Bank ordinary and preference Shareholders

	2017	2016
Profit /(loss) for the year attributable to Bank Shareholders	100 291	48 560
Retained earnings/(losses) for the year	100 291	48 560
Retained earnings/(losses) for the year attributable to Bank ordinary Shareholders depending on terms of shares	100 291	48 560
Profit/ (loss) attributable to Bank ordinary Shareholders	100 291	48 560

(in UAH thousand)

Note 28. Operating segments

Table 28.1. Income, expenses and operating segment results for 2017

	Operating segments		Total
	Treasury operations	Other	
Interest income	127 002	-	127 002
Fee and commission income	7 769	3 733	11 502
Gains on securities trading in the Bank trading portfolio	859	-	859
Gains on other financial instruments revaluation	(3 898)	–	(3 898)
Gains on foreign currency transactions	30 659	–	30 659
Other operational income	400		400
Total income	**162 791**	**3 733**	**166 524**
Interest expenses	(60 752)	-	(60 752)
Allocation to provision for loan impairment and due from other banks	54 312	-	54 312
Allocation to provision for available-for-sale securities in the bank portfolio	(8 835)	-	(8 835)
Allocation to provision for impairment of receivables and other financial assets	15	-	15
Allocations to provision for liabilities	70	-	70
Fee and commission expenses	(30)	(803)	(833)
Administrative expenses	(28 194)	-	(28 194)
Total expenses	**(43 414)**	**(803)**	**(44 217)**
Income tax expenses	(22 016)	-	(22 016)

Table 30.2 Assets and liabilities of operating segments for 2017

	Operating segments		Total
	Treasury operations	Other	
Segment assets	1 203 340	151 766	1 355 106
Total assets	**1 203 340**	**151 766**	**1 355 106**
Segment liabilities	1 029 732	14 234	1 043 966
Total liabilities	**1 029 732**	**14 234**	**1 043 966**

Table 30.3. Income, expenses and operating segment results for 2016

	Operating segments		Total
	Treasury operations	Other	
Interest income	92 496	-	92 496
Fee and commission income	5 431	2 877	8 308
Gains on securities trading in the Bank trading portfolio	1 727	-	1 727
Gains on other financial instruments revaluation	5 395	–	5 395
Gains on foreign currency transactions	36 791	–	36 791
Total income	**141 840**	**2 877**	**144 717**
Interest expenses	(53 725)	-	(53 725)
Allocation to provision for loan impairment and due from other banks	(5 578)	-	(5 578)
Allocation to provision for impairment of receivables and other financial assets	(16)	-	(16)
Allocations to provision for liabilities	(14)	-	(14)
Fee and commission expenses	(34)	(1 817)	(1 851)
Administrative expenses	(24 298)	-	(24 298)
Total expenses	**(83 665)**	**(1 817)**	**(85 482)**
Income tax expenses	(10 675)	-	(10 675)

Table 30.4 Assets and liabilities of operating segments for 2016

	Operating segments		Total
	Treasury operations	Other	
Segment assets	1 255 230	77 710	1 332 940
Total assets	**1 255 230**	**77 710**	**1 332 940**
Segment liabilities	1 113 640	6 247	1 119 887
Total liabilities	**1 113 640**	**6 247**	**1 119 887**

Note 29. Financial risk management

The Bank developed and implemented the procedures for risk management and control. The risk management process is based on relevant regulations of the National Bank of Ukraine. The risk management process at the Bank consists of the prevention, identification, measurement, analysis, actions, control and monitoring, as well as reporting.

Credit risk

Credit risk management, limitation of its negative impact on the Bank's activities is one of the key tasks of strategic management. According to the recommendations of the Basel Committee on Banking Supervision, the Bank uses the standardized approach for credit risk assessment. In the process of credit risk management both quantitative risk assessment and qualitative (expert) risk assessment methods are used.

In order to manage credit risk in transactions with legal entities and individuals the Bank adheres to the following principles of the credit policy:

- investments exclusively in profitable and high-quality credit assets;
- well-balanced approach to lending of corporate customers based on the analysis of financial indicators, activities of entities, markets, industry trends, etc.;

- application of the borrower's identification principle "Know Your Customer";
- a decision on credit provision is based on the qualitative analysis of the borrower's solvency, loan repayment sources and the entity's expected future development;
- diversification of loan portfolio with regard to industry risks, a tendency towards influence of global trends, export orientation, market volatility.

The ratio of the sum of all claims of the Bank to the counterparty or group of related counterparties and all financial obligations given by the Bank to the counterparty or a group of related counterparties to the regulatory capital of the Bank (hereinafter - H7) shall not exceed 25 percent. As of December 31, 2017, the value of the H7 norm was 19.04%.

Market risk

The Bank's risk management system is aimed at ensuring the implementation of business goals defined under the Bank's development strategy and enhancing its value, optimization of the potential opportunities and risks ratio, the Bank's capital stock and growth rate.

The main instrument in implementation of these objectives is a comprehensive risk management system established at the Bank that provides action coordination across all the Bank's departments within a single risk management strategy, approved by the Supervisory Board. Formation of the integrated system is aimed at maximum concentration of risk management functions at the managing underwriter level. This approach is implemented through specified procedures and regulations of the Bank, providing a set of limits and transaction rules for regional institutions.

Foreign currency risk

Table 31.1 Foreign currency risk analysis

Currency	As at 31 December 2017			As at 31 December 2016		
	Monetary assets	Monetary liabilities	Net foreign exchange position	Monetary assets	Monetary liabilities	Net foreign exchange position
USD	255 749	175 943	79 806	393 588	293 933	99 655
EUR	8 702	8 340	362	1 879	6 082	(4 203)
RUR	1 224	1 851	(627)	145	0	145
Total	**265 675**	**186 134**	**79 541**	**395 612**	**300 015**	**95 597**

The risk of financial losses and the possibility of decrease in the cost of capital resulting from changes in foreign exchange rates and prices for precious metals, unfavorable (opposite) for existing open currency positions, is an important type of risk, which arises in the course of the Bank's activities. The amount of possible financial losses depends on the size of the open currency positions and changes in relevant foreign currencies.

Basic methods and models of currency risk management are determined in the "Regulations on currency risk management at PJSC "BANK AVANGARD".

The internal limits for total open foreign exchange position by types of currencies are established at the Bank. The methodology and mechanisms of foreign currency risk management are updated constantly.

The process of foreign currency risk management at the Bank provides for daily monitoring of the compliance of the maximum possible open foreign exchange positions on the basis of acceptable values of capital at risk to the established limits of open currency positions, analysis of volatility in exchange rates and the amount of the foreign currency risk under regular and stress conditions.

Parametric assessment methods based on the assumption of normal distribution of currency fluctuation disturbances (Value-at-Risk methodology, etc.) appeared to be unsuitable for predicting the foreign currency risk magnitude at the Bank. In this situation, based on the analysis of currency fluctuations, a risk magnitude was estimated for each open currency position, as well as an acceptable risk magnitude. Accordingly, the limits for open currency positions were set that represent a subject to daily control of the risk management department and an instrument of foreign currency risk exposure limitation.

Table 31.2 Changes in profit or loss and shareholders' equity due to possible changes of UAH official exchange rate against foreign currencies determined as at the reporting date providing that all other variables remain fixed

	2017		2016	
	Impact on profit/ (loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
USD strengthening by 25%	(493)	(493)	(2 181)	(2 181)
USD weakening by 25%	493	493	2 181	2 181
EUR strengthening by 25%	(4 480)	(4 480)	(1 672)	(1 672)
EUR weakening by 25%	4 480	4 480	1 672	1 672
RUR strengthening by 25%	(167)	(167)	31	31
RUR weakening by 25%	167	167	(31)	(31)

A model of control over capital adequacy level is established at the Bank in order to ensure the sustainability of the Bank's activities, the regulatory capital formation in accordance with the requirements of the National Bank of Ukraine and with regard to the minimum capital requirements set by the Basel Committee on Banking Supervision, as well as for the assessment and monitoring of capital adequacy taking into account all the risks regarding the Bank's continual activities in every direction.

The risk of financial losses and the possibility of decrease in the cost of capital resulting from changes in foreign exchange rates and prices for precious metals, unfavorable (opposite) for existing open currency positions, is an important type of risk, which arises in the course of the Bank's activities. The amount of possible financial losses depends on the size of the open currency positions and changes in relevant foreign currencies. The analysis of the impact of a projected change in foreign exchange rates on the Bank's financial result is conducted by using approaches developed by the Bank.

The Bank does not consider other risks to be significant for its activities, therefore the Bank does not monitor them.

Interest rate risk

Table 31.3 General analysis of interest rate risk

Item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Interest-free	Total
2017						
Total financial assets	1 198 214	2 808	66 234	7 818	76 735	1 351 809
Total financial liabilities	943 848	22 056	50 938	-	12 890	1 029 732
Net GAP on interest-	254 366	(19 248)	15 296	7 818	63 845	322 077

bearing assets and liabilities as at 31 December

Table 31.4 Monitoring of interest rates on financial instruments

(%)

	2017				2016			
	UAH	USD	EUR	other	UAH	USD	EUR	other
Assets								
Cash and cash equivalents	0.0	0.00	0.0	0.0	0.0	0.00	0.0	0.0
Due from other banks	12.3	3.55	0.0	0.1	12.6	0.00	0.0	0.0
Loans and advances to customers	18.6	4.25	0.0	0.0	21.1	0.00	0.0	0.0
Trading debt securities	10.5	1.00	0.0	0.0	13.1	0.00	0.0	0.0
Other assets	0.0	0.00	0.0	0.0	0.0	0.00	0.0	0.0
Liabilities								
Due to other banks	15.0	0.0	0.0	0.0	15.7	1.1	0.0	0.0
Due to customers	4.94	0.88	0.01	0.0	8.3	1.8	0.02	0.0
Current accounts	0.01	0.2	0.01	0.0	0.01	0.01	0.01	0.0
Term deposits	11.0	3.0	0.0	0.0	13.8	3.8	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Geographic risk

Table 31.5 Financial assets and liabilities geographic concentration analysis for 2017

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	25 203	-	–	25 203
Due from other banks	229 102	-	–	229 102
Loans and advances to customers	125 166	-	-	125 166
Available-for-sale securities in the Bank portfolio	833 393	–	–	833 393
Held-to-maturity securities in the Bank portfolio	135 138	2 808	-	137 946
Other financial assets	999	–	–	999
Total financial assets	**1 349 001**	**2 808**	**–**	**1 351 809**
Liabilities				
Due to other banks	171 556	–	–	171 556
Due to customers	848 064	1 638	2 668	852 370
Other financial liabilities	5 806	–	–	5 806
Total financial liabilities	**1 025 426**	**1 638**	**2 668**	**1 029 732**

Assets and liabilities were classified based on a counterparty's residence data.

Table 31.6 Financial assets and liabilities geographic concentration analysis for 2016

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	31 127	-	–	31 127
Due from other banks	563 635	-	–	563 635
Loans and advances to customers	44 266	-	-	44 266
Available-for-sale securities in the Bank portfolio	575 968	–	–	575 968
Held-to-maturity securities in the Bank portfolio	113 074	-	-	113 074
Other financial assets	505	–	–	505
Total financial assets	**1 328 575**	**-**	**–**	**1 328 575**
Liabilities				
Due to other banks	86 486	–	–	86 486
Due to customers	992 555	1 535	25 939	1 020 029
Other financial liabilities	7 125	–	–	7 125
Total financial liabilities	**1 086 166**	**1 535**	**25 939**	**1 113 640**

Liquidity risk

Table 31.7 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2017

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	25 203	-	-	-	-	25 203
Due from other banks	229 102	-	-	-	-	229 102
Loans and advances to customers	68 265	-	49 083	7 818	-	125 166
Available-for-sale securities in the Bank portfolio	816 242	-	17 151	-	-	833 393
Held-to-maturity securities in the Bank portfolio	135 138	-	2 808	-	-	137 946
Other financial assets	999	-	-	-	-	999
Total financial assets	**1 274 949**	**0**	**69 042**	**7 818**	**-**	**1 351 809**
Liabilities						
Due to other banks	171 556	-	-	-	-	171 556
Due to customers	779 376	22 056	50 938	-	-	852 370
Other financial liabilities	5 806	-	-	-	-	5 806
Total financial liabilities	**956 738**	**22 056**	**50 938**	**-**	**-**	**1 029 732**
Net liquidity GAP as at 31 December	318 211	(22 056)	18 104	7 818	-	322 077
Total liquidity GAP as at 31 December	318 211	296 155	314 259	322 077	322 077	

Table 31.8 Analysis of financial assets and liabilities by maturities based on expected maturities as at 31 December 2016

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	31 127	-	-	-	-	31 127
Due from other banks	563 635	-	-	-	-	563 635
Loans and advances to customers	38 262	-	-	6 004	-	44 266
Available-for-sale securities in the Bank portfolio	569 453	2 625	3 890	-	-	575 968
Held-to-maturity securities in the Bank portfolio	113 074	-	-	-	-	113 074
Other financial assets	505	-	-	-	-	505
Total financial assets	**1 316 056**	**2 625**	**3 890**	**6 004**	**-**	**1 328 575**
Liabilities						
Due to customers	86 486	-	-	-	-	86 486
Other financial liabilities	998 399	20 085	1 545	-	-	1 020 029
Total financial liabilities	7 125	-	-	-	-	7 125
Net liquidity GAP as at 31 December	**1 092 010**	**20 085**	**1 545**	**-**	**-**	**1 113 640**
Total liquidity GAP as at 31 December	**224 046**	**206 586**	**204 241**	**210 245**	**210 245**	

The process of strategic, legal, operational, technological, compliance, and reputation risk provides for the effective management at all stages (from detection of risks to their minimization and control) and is implemented using relevant parameters.

The key objective of implementation and performance of the system of strategic, legal, operational, technological, compliance, and reputation risk management is to ensure the adoption of appropriate management decisions aimed at reducing the impact of risks on the Bank as a whole, in respect of certain activities of the Bank.

Other risks

The strategic, legal, operational, compliance and reputation risk management system includes:

- definition of the basic risk management principles;
- identification, registration and description of risks separately for each type of risk;
- risk assessment and risk level control (monitoring);
- measures to reduce (minimize) risks and eliminate the negative effects of risks, including the procedure and sources of funding for compensation of damages received;
- formation of the Bank's management structure, development of internal policies, procedures and technologies, taking into account the basic principles of risk management adopted by the Bank;

(in UAH thousand)

Note 32. Capital management

The Bank's objectives in capital management are: to ensure compliance with the capital requirements set by the National Bank of Ukraine and cover the negative crisis effects. To determine the level of equity the Bank assesses the amount of regulatory capital and capital

adequacy ratios. The regulatory capital is one of the most important Bank's activity indicators, which purpose is to cover negative implications of different risks that Bank takes during its activity and to ensure the protection of deposits, financial firmness and the Bank stability.

Regulatory capital structure

	As at 31 December 2017	As at 31 December 2016
Core capital		
Actually paid authorized capital stock	208 498	162 382
Reserves and other funds	4 562	2 134
Reduction of core capital		
Intangible assets less amortization	(1 367)	(1 391)
Capital contributions to intangible assets	-	-
Core capital (tier 1 capital)	211 693	163 125
Additional capital		
Provisions for standard liabilities	-	6 480
Estimated current year profit	100 290	48 560
Uncollected accrued income less provisions	(126)	-
Retained earnings from prior years	72	56
Additional capital (tier 2 capital)	100 236	55 096
Total regulatory capital	**311 929**	**218 221**

The data in the Table above consider the adjusting entries as at 01/01/2018. A regulatory capital adequacy ratio (solvency ratio) reflects the Bank's ability to timely and fully cover its liabilities arising from trade, credit and other monetary operations. The higher the value of the regulatory capital adequacy ratio, the greater the risk portion assumed by the Bank's owners. Alternatively, the lower the ratio value, the greater the risk portion assumed by the Bank's creditors/depositors. A regulatory capital adequacy ratio is set to prevent the excessive shifting of the credit risk and the banking assets default risk from the Bank to the Bank's creditors/depositors.

Each year, the ALCO oversees the preparation of a capitalization plan, which is a part of the Bank's budget and which is aimed at ensuring that the Bank will comply with the minimum capital requirements. It details a projected growth of capital and assets, dividend distributions, future business expansion, losses on bad loans and projected revenues. The plan also aims to support capital adequacy according to regulatory requirements of the National Bank of Ukraine. Due to the Bank's effective policy regarding capital management, the Bank adhered to the regulatory capital adequacy ratio during 2017.

(in UAH thousand)

Note 33. Contingent commitments

Table 33.1. Structure of lending commitments

	As at 31.12.2016	As at 31.12.2015
Lending commitments issued	7 541	40 711
Guarantees issued	5 315	292 746
Provisions for lending commitments	(100)	(170)
Total lending commitments less provisions	**12 756**	**333 287**

Table 33.2. Structure of lending commitments by currencies

	As at 31.12.2017	As at 31.12.2016
UAH	9 506	330 615
EUR	3 250	2 672
Total	**12 756**	**333 287**

As at 31 December 2016, the Bank had no signed agreements of non-cancellable leases and cases pending in courts.

Note 32. Fair value of financial instruments

According to the Regulation on the accounting policies, a fair value is the amount for which an asset can be exchanged or a liability settled in a transaction between knowledgeable, willing and independent parties, namely:

- fair value of an asset is the amount to be paid for the purchase (exchange) of the asset;
- fair value of a liability is the amount required to repay the liability.

The fair value of financial assets freely traded in the market is their quoted prices in an active market. Where the active market is unavailable, or no information on current prices available at the market, or similar items subject to valuation are unavailable, to determine the estimated fair value the Bank uses a method of valuation and assumption in respect of each class of financial assets or financial liabilities.

As at 31 December 2017, available-for-sale securities in the Bank portfolio are accounted for at fair value. Furthermore, the Bank considers that as at 31 December 2017 the value of such high-liquid assets/liabilities as cash and cash equivalents; short-term funds attracted/placed may be equated to the fair value. Information on financial assets in the balance sheet as at 12/31/2017 stated at fair value is presented below:

	Date	Fair value by various valuation methods			Total carrying amount
		Market quotations (level I)	Valuation method using observable data (level II)	Valuation method using indicators not supported by observable market data (level III)	
Securities in the Bank portfolio available for sale	31.12.17	833 393	-	-	833 393
Financial assets that are recognized at fair value through profit or loss	31.12.17	723	-	-	723
Cash and cash equivalents	31.12.17	25 203	-	-	25 203
Total assets	-	-	-	-	**1 355 106**
Financail liabilities, that are recognized at fair value through profit or loss	31.12.17	1 907	-	-	1 907
Total liabilities	-	-	-	-	**1 043 966**

Information on financial assets in the balance sheet as at 12/31/2015 stated at fair value is presented below:

		Fair value by various valuation methods			Total carrying amount
		Market quotations (level I)	Valuation method using observable data (level II)	Valuation method using indicators not supported by observable market data (level III)	
Securities in the Bank portfolio available for sale	31.12.16	575 968	-	-	575 968
Financial assets that are recognized at fair value through profit or loss	31.12.16	253	-	-	253
Cash and cash equivalents	31.12.16	31 127	-	-	31 127
Total assets	-	-	-	-	**1 332 940**
Financail liabilities, that are recognized at fair value through profit or loss	31.12.16	1 705	-	-	1 705
Total liabilities	-	-	-	-	**1 119 887**

Note 33. Presentation of financial instruments by valuation categories

Table 33.1. *Financial assets by valuation categories for* 2017

	Loans and receivables	Available for sale assets	Held to maturity investments	Total
Cash and cash equivalents	25 203	-	-	25 203
Due from other banks	304 742	-	-	304 742
-Corresponding accounts at other banks	125 497	-	-	125 497
-Sale and repurchase agreements with other banks	-	-	-	-
-Loans to other banks	179 245	-	-	179 245
Loans and advances to customers	139 269	-	-	139 269
-Loans to legal entities	138 603	-	-	138 603
-Loans to individuals	666	-	-	666
Securities in the Bank portfolio available for sale	-	842 228	-	842 228
Securities in the Bank portfolio held to maturity	-	-	137 946	137 946
Other financial assets	1000	-	-	1000
-Positive revaluation on derivatives	723			723
-Income from services accrued	277	-	-	277
Total financial assets	**635 687**	**842 228**	**137 946**	**1 615 861**

Table 35.2. Financial assets by valuation categories for 2016

	Loans and receivables	Available for sale assets	Held to maturity investments	Total
Cash and cash equivalents	31 127	-	-	31 127
Due from other banks	699 245	-	-	699 245
-Corresponding accounts at other banks	450 328	-	-	450 328
-Sale and repurchase agreements with other banks	-	-	-	-
-Loans to other banks	248 917	-	-	248 917

Loans and advances to customers	52 712	-	-	52 712
-Loans to legal entities	52 712	-	-	52 712
Securities in the Bank portfolio available for sale	-	575 968	-	575 968
Securities in the Bank portfolio held to maturity	-	-	113 074	113 074
Other financial assets	521	-	-	521
-Positive revaluation on derivatives	253			253
-Income from services accrued	268	-	-	268
Total financial assets	**783 605**	**575 968**	**113 074**	**1 472 647**

(in UAH thousand)

Note 36. Related party transactions

Table 36.1 Balances of related party transactions for 2017

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 17 %)	-	-	666	13 671
Provisions for loan debts as at 31 December	-	-	(93)	(6 425)
Due to customers (contract interest rate 0,1- 23%, depending on currency and product)	1 994	59 118	206	3 881
Other liabilities	–	43	2 652	-

During 2017, the Bank carried out related party transactions on standard terms.

Table 36.2. Income and expenses for related party transactions for 2017

	Parent company	Jointly controlled companies	Top management	Other related parties
Interest income	-	-	38	2 424
Interest expenses	(2)	(8 858)	(25)	-
Fee and commission income	40	104	1	222
Administrative and other expenses	-	(98)	(10 338)	-
Total	**38**	**(8 852)**	**(10 407)**	**2 646**

Table 36.3. Loans granted to and repaid by related parties in 2017

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans granted to related parties during the period	-	-	738	51 424
Loans repaid by related parties during the period	-	-	72	49 760
Total	**-**	**-**	**666**	**1 664**

Table 36.4 Balances of related party transactions for 2016

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans and advances to customers (contractual interest rate 30 %)	-	-	-	12 007
Provisions for loan debts as at 31 December	-	-	-	(6 004)
Due to customers (contract interest rate 0,1- 23%, depending on currency and product)	8 546	301 788	1 314	632
Other liabilities	–	22	1 688	-

Table 36.5. Income and expenses for related party transactions for 2065

	Parent company	Jointly controlled companies	Top management	Other related parties
Interest income	-	-	23	1 832
Interest expenses	-	(314)	(132)	(23)
Fee and commission income	35	88	1	-
Administrative and other expenses	-	(76)	(8 027)	-
Total	**35**	**(302)**	**(8 135)**	**1 800**

Table 36.6. Loans granted to and repaid by related parties in 2016

	Parent company	Jointly controlled companies	Top management	Other related parties
Loans granted to related parties during the period	-	-	763	3 190
Loans repaid by related parties during the period	-	-	763	-
Total	**-**	**-**	**-**	**3 190**

Table 36.8. Top management benefits

	2017		2016	
	Expenses	Accrued liabilities	Accrued liabilities	Accrued liabilities
Current employee benefits	10 338	2 652	8 027	1 688

Note 35. Subsequent events

There have been no other events after the reporting date that may be significant for users of the financial statements. In particular, there have been no:

- Business combinations;
- Termination of business or decision on termination of business;
- Significant acquisition of assets;
- Significant changes in exchange rates or the value of the Bank's assets;
- Court decisions in favor of plaintiffs, which might cause significant financial obligations for the Bank.

28 February 2018

Acting Chairman of the Board _____ **/I. Dvorzhanska./**

Chief Accountant _____ **/V. Chechotkina /**