

Translation from Ukrainian original

**PUBLIC JOINT STOCK COMPANY
“DEUTSCHE BANK DBU”**

Annual financial statements in accordance with IFRS

for the year ended 31 December 2017
and INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

*To the Shareholders and the Supervisory Board
of PUBLIC JOINT STOCK COMPANY "DEUTSCHE BANK DBU"*

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**Opinion**

We have audited the annual financial statements (hereinafter – the financial statements) of the Public Joint Stock Company "Deutsche Bank DBU" (hereinafter – the Bank), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of cash flows, statement of changes in equity for the year then ended and notes to the financial statements, including the summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – ISAs). Our responsibilities according to those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the International Ethics standards Board for Accountants' *Code of Ethics for Professional Accountants* (hereinafter – IESBA Code) together with ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

We planned our audit on the basis of the determined materiality and assessed risk of material misstatements of the financial statements. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Assessment of provisions for impairment of loans and loan commitments provided to borrowers-legal entities

Assessment of provisions for impairment of loans and loan commitments provided to borrowers-legal entities is a key audit matter considering the volume of loan operations in the Bank's activity and their weight in the Bank's assets and off-balance liabilities structure, and also that the Bank's management applies their professional judgment to assess the provisions and the use of their subjective assumptions may cause different levels of impairment of loans and loan commitments.

Loans and loan commitments provided to borrowers-legal entities as at 31 December 2017 are not impaired, therefore, to cover unidentified losses the management assessed provisions for impairment on the portfolio basis, using their key assumptions and judgments regarding default probability for loans with similar credit risk characteristics.

Our audit procedures included analysis of provision assessment methodology used by the Bank and verification of input data for assessment of the impairment level. Considering the fact that the majority of the Bank's loans, guarantees and confirmed letters of credit were provided to the borrowers-legal entities, incorporated in Ukraine by high-ranked international companies being the clients of Deutsche Bank Group (hereinafter – the Group), and the default probability assessment was based on the models and indicators calculated on the Group level, we analyzed that the methodology and data used in these models were appropriate and the key assumptions applied were reasonable.

Emphasis of Matter

The presence of internal and external political and economic factors, which cannot be objectively predicted as at the date of the report or are not under direct control of the Bank, may affect its operation in the future. We do not modify our opinion with regard to this matter.

Other information

Management of the Company is responsible for other information. The other information comprises the annual reporting data of the issuer, but does not include the financial statements of the Bank or our auditor's report thereon. It is expected that the annual reporting data of the issuer will be prepared after the date of this auditor's report.

Our opinion on the financial statements does not cover other information and we do not express any form of conclusion thereon.

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

If, after we review the annual reporting data of the issuer of securities, we conclude that there is a material misstatement, our responsibility is to report on this fact.

Responsibilities of the Bank's Management and the Supervisory Board for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matter related to going concern and using the going

concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Olga Panchenko.


Tetyana Bernatovych
President
Auditor of Banks' Certificate №0021
Date of expiry: January 01, 2020

A circular blue ink stamp from "RSM УКРАЇНА" (RSM Ukraine). The outer ring contains the text "РАТІНГ І СТАТИСТИЧНЕ МОНІТОРИНГОВЕ ТОВАРИСТВО З ОБМЕЖЕНОЮ ВІДПОВІДАЛЬНІСТЮ" and "УКРАЇНА". The center contains the text "Ідентифікаційний код 21500646".


Olga Panchenko
Engagement partner
Auditor of Banks' Certificate №0046
Date of expiry: January 01, 2020

37/19 Donetska Str., Kyiv, Ukraine
April 6, 2018

PJSC "Deutsche Bank DBU"
Financial statements as at and for the year ended 31 December 2017
Statement of financial position as at 31 December 2017

(in thousands of UAH)

	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	5	1 137 952	1 357 908
Due from other banks	6	417 561	885 196
Loans and advances to customers	7	514 802	210 789
Receivables on current income tax		-	2 467
Deferred tax asset	19	932	489
Fixed assets	8	12 944	8 039
Intangible assets	8	578	484
Other assets	9	2 895	768
Total assets		2 087 664	2 466 140
LIABILITIES			
Due to customers	10	1 706 565	2 096 646
Current income tax liability		2 381	-
Provision for credit-related commitments	11	88	646
Dividends	21	-	2 588
Other liabilities	12	19 227	10 945
Total liabilities		1 728 261	2 110 825
EQUITY			
Share capital	13	301 839	228 666
Retained earnings and other reserves		57 564	126 649
Total equity		359 403	355 315
Total liabilities and equity		2 087 664	2 466 140

Authorised for issue and signed

6 April 2018

Bernd Wurth
Chairman of the Board

Prepared by Gnatyuk S. I.
Deputy Chief Accountant
Phone: (044) 495-92-31



Alexey Rybenko
Chief Accountant

PJSC "Deutsche Bank DBU"
Financial statements as at and for the year ended 31 December 2017
Statement of profit or loss and other comprehensive income for the year ended 31 December 2017

(in thousands of UAH)

	Note	2017	2016
Interest income	15	164 737	267 704
Interest expense	15	(60 111)	(91 717)
Net interest income		104 626	175 987
Net decrease of impairment loss	6,7,9,11	1 160	826
Net interest income less impairment		105 786	176 813
Net fee and commission income	16	20 810	25 020
Net trading income	17	7 988	12 888
Other operating income		893	-
Total non-interest income		29 691	37 908
Salaries and employee benefits		(43 719)	(32 793)
Administrative and other operating expenses	18	(44 194)	(42 210)
Total non-interest expense		(87 913)	(75 003)
Profit before tax		47 564	139 718
Income tax expense	19	(9 493)	(26 922)
Profit for the year		38 071	112 796
Other comprehensive income		-	-
Total comprehensive income		38 071	112 796
Earnings per share from continuing operations:			
Basic and diluted earnings per share, UAH	20	0.17	0.49

Authorised for issue and signed

6 April 2018

Bernd Wurth
Chairman of the Board



Alexey Rybenko
Chief Accountant

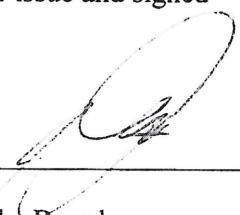
Prepared by Gnatyuk S. I.
Deputy Chief Accountant
Phone: (044) 495-92-31

Statement of profit or loss and other comprehensive income should be read in conjunction with the notes on pages 7-47 which are forming part of these financial statements

(in thousands of UAH)	Note	Share capital	Reserve and other funds	Retained earnings	Total
Balance as at 1 January 2016		228 666	7 248	143 172	379 086
Profit for the year				112 796	112 796
Total comprehensive income		-	-	112 796	112 796
Transfer of profit to reserve funds		-	6 605	(6 605)	-
Dividends		-	-	(136 567)	(136 567)
Balance as at 31 December 2016		228 666	13 853	112 796	355 315
Balance as at 1 January 2017		228 666	13 853	112 796	355 315
Profit for the year				38 071	38 071
Total comprehensive income		-	-	38 071	38 071
Transfer of profit to reserve funds			5 640	(5 640)	-
Dividends	20	-	-	(33 983)	(33 983)
Increasing face value of shares		73 173	-	(73 173)	-
Balance as at 31 December 2017		301 839	19 493	38 071	359 403


Authorised for issue and signed

6 April 2018


 Bernd Wurth
 Chairman of the Board

Prepared by Gnatyuk S. I.
 Deputy Chief Accountant
 Phone: (044) 495-92-31




 Alexey Rybenko
 Chief Accountant

Statement of changes in equity should be read in conjunction with the notes on pages 7- 47 which are forming part of these financial statements

(in thousands of UAH)	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		47 564	139 718
Adjustments for:			
Depreciation and amortization	8	2 744	1 236
Net increase/(decrease) of provisions for impairment of assets	6,7,9,11	(1 179)	(1 013)
Amortisation of discount /(premium)		(8)	-
(Increase)/decrease of accrued income		(3 278)	375
(Decrease)/increase of accrued expenses		2 602	(533)
Unrealized exchange differences		102	444
Net monetary gain from operating activities before changes in operating assets and liabilities		48 547	140 227
Changes in operating assets and liabilities:			
Net decrease/(increase) in deposits in other banks	5	(417 478)	295 975
Net decrease/(increase) in loans and advances to customers	7	(303 470)	346 296
Net decrease/(increase) in other assets	9	(727)	2 331
Net increase /(decrease) in due to customers	10	(437 386)	850 323
Net increase /(decrease) in other liabilities	12	5 914	(5 053)
Net cash flows from (used in) operating activities before income tax		(1 104 600)	1 630 099
Income tax paid		(5 087)	(53 774)
Net cash flows from (used in) operating activities		(1 109 687)	1 576 324
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets	8	(7 398)	(6 123)
Acquisition of intangible assets	8	(345)	(375)
Net cash flows from investing activities		(7 743)	(6 498)
CASH FLOWS FROM FINANCIAL ACTIVITIES			
Dividends paid	21	(36 571)	(133 979)
Net cash flows from (used in) financial activities		(36 571)	(133 979)
Effect of the official exchange rate changes on cash and cash equivalents		46 912	19 851
Net increase (decrease) in cash and cash equivalents		(1 107 089)	1 455 698
Cash and cash equivalents at the beginning of the year ¹	5	2 158 148	702 450
Cash and cash equivalents at the end of the year ¹	5	1 051 059	2 158 148

Authorised for issue and signed

6 April 2018

Bernd Wurth
Chairman of the Board

Alexey Rybenko
Chief Accountant

Prepared by Gnatyuk S. I.
Deputy Chief Accountant
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¹ Cash and cash equivalents do not include term deposit certificates of NBU

1 Background

a) Main activities

Public Joint Stock Company DEUTSCHE BANK DBU (hereinafter - the Bank) was registered as an open joint stock company in 2009. In 2010, the Bank was re-registered as a public joint stock company.

The Bank operates based on the license issued by the National Bank of Ukraine on 18 November 2011. The Bank specializes in attraction of deposits and maintenance of customers' accounts, granting loans and providing guarantees, cash and settlement transactions, transactions with securities, and foreign exchange operations. The Bank also has a license to conduct professional activity in the stock market (brokerage, dealership) issued by National Securities and Stock Market Commission (decision No. 1084 dated July 24, 2015). The Bank's operations are regulated by the National Bank of Ukraine. The Bank is a member of Individuals' Deposits Guarantee Fund (certificate № 207 dated October 12, 2009).

As at 31 December 2017, the Bank is operating through its Head Office and has no branches.

The Bank is registered at Lavra Street 20, Kyiv, Ukraine.

b) Ultimate controlling party

Deutsche Bank AG, a corporation, created and acting according to the laws of the Federal Republic of Germany, owns 100 % of the Bank's share capital. Deutsche Bank AG is a direct parent company of the Bank and its ultimate controlling party. Deutsche Bank AG prepares and publishes its consolidated financial statements prepared in accordance with IFRS.

The Bank's management does not own any shares in the Bank. Details of transactions with related parties are disclosed in note 26.

2 Economic environment in which the Bank operates

In 2017, the gradual recovery of the Ukrainian economy continued, however, growth rates were lower than the global dynamics. This is largely influenced by political processes and the lack of progress in reforms (delays with the creation of the Anti-corruption court, land reform, etc.).

At the beginning of the year, the International Monetary Fund predicted GDP growth of 2.5% at inflation rate of 10% by the end of 2017. The National Bank set the inflation target rate at the level of 8%. According to the results of the year, Ukraine has a GDP growth of 2.5% and a level of consumer inflation of 13.7%. Excess of the projected inflation rate has occurred under the influence of growth of consumer demand, deterioration of the situation on the currency market, increase of inflation expectations, and also fiscal policy easing. The situation in the global markets of goods and capital in general was favorable for the development of the economy. Despite the loss of part of the enterprises in uncontrolled territories, output remained almost unchanged due to the rapid reorientation of enterprises to other sources of raw materials and favorable foreign economic conditions.

Among the favorable economic events of 2017, the following can be mentioned: the introduction of pension, medical and educational reform, the change of the program of housing subsidies, the continuation of cooperation with the IMF (receiving the tranche in April), the placement of 15-year Eurobonds for \$ 3 billion, raising the minimum wage, restructuring state debt, the introduction of a visa-free regime with the EU.

Also, 2017 was more successful for the banking system than the previous one. Banks have become more stable and better capitalized, have entered a profitable level and began to lend to the population and business. The NBU's discount rate declined in the first half of 2017 to 12.5%. But in the second half of the NBU began to raise the discount rate and by the end of the year it was 14.5% with a tendency to increase. These measures of the regulator are aimed at curbing consumer inflation and bringing it closer to the target values.

Over the past several years, the NBU has been focusing on stabilizing the banking sector. In 2018, the NBU will continue to unify the regulatory requirements of the Basel Recommendations and European Directives. The planned introduction of a new liquidity norm - LCR, which aims to increase banks' resilience to outflows. From 2018, independent auditors will conduct an analysis of the quality of assets of all financial institutions. And the NBU, in its turn, will conduct stress testing of banks (in 2018, banks will be subject to stress testing, which together account for at least 90% of the sector's assets). In accordance with the new law, a credit register will be introduced in 2018.

By 2018, the government forecasts GDP growth of 3%, unemployment rate - at 9.1%, and inflation – at 9%. The NBU also forecasts GDP growth to 3.2% in 2018 and a decrease in inflation. In accordance with the approved Law on the State Budget for the next year, total income should increase by 18.5% y/y, expenditures (together with lending) - by 17.3%, and the deficit will make 2.5% of GDP. Planned tax revenue growth is of 20.5%.

Among the challenges of 2018 is the return of foreign loans, estimated at about \$ 7 billion. Accordingly, Ukraine will need additional external financing. There are hopes for continued cooperation with the IMF, but in order to continue cooperation, Ukraine should adopt a law on privatization, create an anticorruption court, settle gas prices and carry out land reform. Taking into account that the coming year is a pre-election, there are concerns about the inhibition of necessary reforms. The lack of lending from the IMF could, as a result, worsen the macroeconomic state of the country - the probability of reducing the NBU's gold and foreign exchange reserves, devaluation of the hryvnia, and accelerating inflation will increase, which, accordingly, will worsen the country's economic growth and investment climate.

The Bank's operations are steadily profitable. The profit is distributed to the Bank's reserve funds, is used for the increase of the authorized capital and to pay dividends. The Bank meets the regulatory requirements for the capital adequacy ratio, which significantly exceeds the established norm. The Bank ensures the timely involvement and support of a sufficient level of capital required to support its current activities, to support strategic development intentions and to provide protection against risks arising in banking activities. Throughout 2017, the Bank ensured compliance with liquidity standards, in particular, the provision for instant liquidity at the end of 2017 amounted to 158.47% and exceeded the normative value by 7 times.

One of the key areas of work is the extension of the client base. The Bank is engaged in attracting new clients.

Deutsche Bank AG, as a parent bank supports for the strategic conditions of the Bank's development.

There are no the Bank's assets that would not have been recognized in the Statement of Financial Position as at 31 December 2017 in accordance with IFRS.

Although management believes that it is taking appropriate measures to support the Bank's stable operations, in the current circumstances, further political instability and potential macroeconomic shocks may have a negative impact on the Bank's performance and financial position, the nature and consequences of which are currently not feasible. These financial statements prepared on a going concern basis reflect the current assessment of management personnel of the impact of operating conditions in Ukraine on the operational activities and financial position of the Bank. Future performance conditions may differ from management estimates.

Although management believes that it is taking appropriate measures to support the Bank's stable operations, in the current circumstances, further political instability and potential macroeconomic shocks may have a negative impact on the Bank's performance and financial position, the nature and consequences of which are currently not feasible. These financial statements, prepared on a going concern basis, reflect the current assessment of management personnel on the impact of operating conditions in Ukraine on operational activities and the financial position of the Bank. Future performance conditions may differ from the management's estimates.

3 Basis of preparation

a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

b) Basis of measurement

These financial statements are prepared on the historical cost basis, except for assets and liabilities as stipulated by the accounting policy set out below when such measurement basis is used as amortised cost or fair value.

c) Functional and presentation currency

The functional and presentation currency is the Ukrainian hryvnia (UAH).

Unless stated otherwise, these financial statements are presented in UAH, rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from these estimates.

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

4 Significant accounting policies

The accounting policies set out below are consistently applied to all periods presented in these financial statements, except as stated otherwise.

a) Foreign currency transactions

Transactions in foreign currencies are translated to hryvnias at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to hryvnias at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The UAH is not a convertible currency outside Ukraine and, accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or any other exchange rate.

The principal UAH exchange rates used in the preparation of these financial statements are as follows:

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

b) Cash and cash equivalents

For the purpose of statement of financial position cash and cash equivalents include notes and coins on hand, unrestricted balances held with the NBU (including mandatory reserves) and deposit certificates issued by NBU. For the purpose of the statement of cash flows cash and cash equivalents include notes and coins on hand, unrestricted balances held with the NBU (including mandatory reserves) and deposit certificates issued by NBU (overnight), correspondent accounts with other banks.

c) Financial instruments

(i) Classification

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

- acquired principally for the purpose of reselling in the near term
- upon initial recognition, designated as an integral part of identified financial assets that are managed on a group basis and for which there is evidence of recent short-term gain or,
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments).

Under IAS 39 requirements embedded derivative is separated from the host and is accounted for as a derivative, unless it is closely related to the host. If the derivative is separated then the host contract is accounted for according to the general rules of classification and the separated instrument – at fair value through profit or loss unless it is designated hedge instrument. If it is not possible for embedded derivative to be estimated separately either at the initial date or at the next reporting date, then whole hybrid (combined) contract is recognized at the fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such agreements are not concluded for immediate or short-term resale and are not classified as financial assets at fair value through profit or loss or reflected in other comprehensive income of the bank.

Loans and receivables include cash and balances with the NBU, due from banks and loans to customers.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available for sale or,
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of financial instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

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

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost of acquisition net of impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(iv) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(v) *Gains and losses on subsequent measurement*

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

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early redemption of debt.

The Bank writes off assets deemed to be uncollectible.

(vii) *Derivative financial instruments*

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

d) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired may include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

Management reviews loan portfolio to assess impairment on a regular basis. The Bank first assesses whether objective evidence of impairment exists individually for loans to customers that are individually significant and for those where specific indications of impairment were identified as at the assessment date. Other loans and advances to customers, that are not individually significant and for which no specific indications of impairment were identified at individual level, are assessed on portfolio basis.

For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each reporting date whether there is any objective evidence that the loan is impaired.

Objective evidence of impairment exists when a loss event has occurred. Identification of loss event for individual assessment involves analysis of the following aspects of the borrower's financial position.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following aspects:

- the aggregate exposure to the customer
- the amount and timing of expected loan receipts and recoveries
- the realisable value of collateral and likelihood of successful foreclosure.

The amount of impairment loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with

similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The collective assessment is based on appropriate historical trends of default and a migration matrix approach. For collective assessment purposes, exposures are divided into homogeneous groups with similar risks and characteristics.

The loss amount for collectively assessed loans is determined based on the following aspects:

- the probability of default by the client or counterparty on its contractual obligations
- current exposures to the counterparty
- estimated proceeds from collateral realisation (where applicable).

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

If there is objective evidence that such assets are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(iv) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash

inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

e) Provision for credit-related commitments

In the normal course of business, the Bank enters into credit-related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the Bank settles the obligation. The reimbursement in the amount not exceeding the amount of provision is recognised in other financial assets.

In the statement of profit or loss and other comprehensive income, the expense relating to a provision is presented net of the amount recognised for a reimbursement.

f) Fixed assets

(i) Owned assets

Fixed assets comprise additions of fixed assets and repairs of property and equipment, furniture and office equipment. Fixed assets are initially recognised at cost less accumulated depreciation and impairment losses.

Expenses incurred in connection with repairs of property and equipment are recognised in profit or loss in the period when they are incurred unless they meet the capitalisation recognition criteria.

Where an item of property, equipment assets comprises major components having different useful lives, they are accounted for as separate items of fixed assets.

Gains less losses from disposal of fixed assets are recognised in profit or loss.

(ii) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Assets obtained under a lease that is not a finance lease are not recognized in the statement of financial position.

The Bank classifies lease transactions as operational leasing (rent) if none of following criteria, separately or in combination, are not fulfilled:

- at the end of the term of the lease (rent) property rights or other rights on the asset are transferred to the lessee;
- the lessee has the right to purchase the asset at a price that is much lower than the fair value at the date of realization of this right, and at the inception of the lease (rent) there is reasonable certainty that this right will be realized;
- the term of the lease (rent) is a bigger part of term of the useful life of the asset even if that title will not be not transferred;
- at the beginning of the term of the lease (rent) the present value of minimum lease (rent) payments must be not less than the fair value of the leased asset (rent);
- leased assets (rent) are specialized, i.e. only the lessee can use them without major modifications.

The object of operating lease is not recognized in the balance sheet of the lessee. Payments for leases are recognized as an expense on the straight line basis over the lease term.

The bank does not disclose financial leasing transactions due to absence of such operations.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of specific assets. Depreciation commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated annual depreciation rates are as follows:

Machinery and equipment	10-25%
Fixtures and fittings (furniture)	10-20%
Other non-current tangible assets	8.3-20%

(iv) Impairment

Recognition of impairment of fixed assets and intangible assets is carried out in accordance with Instruction for accounting of fixed assets and intangible assets of banks of Ukraine N 480 dated 20 December 2005. The decision on the recognition of impairment and / or revision of terms of useful life is taken by continuously-operating (inventory) commission on the basis of revision of fixed assets or intangible assets.

g) Intangible assets

Intangible assets, acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Estimated annual amortisation rate is 33%.

h) Share capital

Contributions to share capital are recognised at historical cost. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

i) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and requirements of the Ukrainian legislation.

Dividends in relation to ordinary shares are reflected as a reduction to retained earnings as and when declared.

j) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

k) Earnings per share

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

l) Income and expenses recognition

Income and expenses are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in profit less losses on financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other commissions and other income and expenses are recognised in profit or loss in the period when underlying services were performed.

Dividend income is recognised in profit or loss on the date of dividends declaration.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments made.

m) Employee benefits

Pensions are provided by the State through the mandatory contributions, which are made by the Bank and employees based on the earnings of the employees. The expenditure on these contributions is recognised in the profit or loss when contributions are due and is included in "Salaries and employee benefits".

n) Offsetting

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

o) Segment reporting

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

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

For geographical allocation of assets and liabilities refer to note 22 (e).

p) Related parties transactions

According to IAS 24 "Related Party Disclosures" parties are considered to be related parties, when one of them has the ability to control the other party, is under common control, or can exercise significant influence in making financial and operating decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form. Terms of transactions with related parties are set at the time of the transaction.

Relationships between related parties are in particular relationships: parent bank and its subsidiaries; bank-investor and his associates; bank and private individuals who have control or have significant influence over the bank and relationships of bank with close family members of each such individual; bank and its managers and other persons belonging to key management personnel and close family members of such persons.

Related parties to the Bank are members of the Supervisory Board, Management Board and their family members, other key management personnel, entities, that are under common control. Key management personnel are: Chairman and members of the Supervisory Board, the Management Board; Chairmen of the Credit Committee, Tariff Committee, ALCO; Chief Accountant; Head of the Department of Internal Audit. The Bank assesses credit risks of lending to related parties and manages them based on ratios established by the National Bank of Ukraine.

In the normal course of business, the Bank provides loans and advances to customers, attracts deposits and conducts other operations with related parties.

q) New and Revised Accounting Standards

For the preparation of these financial statements, the following list of new or revised standards was first made mandatory for the fiscal year beginning on January 1, 2017 (the list does not include information about new or changed requirements that affect the interim financial statements or the first application IFRS - IFRS 14 Deferred Tax Assets for Unrealised Losses (issued in January 2014) - as they are not relevant to the IFRS financial statements).

For the preparation of these financial statements, the following amendments to Standards are mandatory for the first time for the financial year beginning 1 January 2017.

- Amendments to IAS 7 titled Disclosure Initiative (issued in January 2016) – The amendments applied the financial years beginning 1 January 2017 or after this date require entities to provide information that enables users of financial statements to evaluate changes in liabilities arising from the entity's financing activities. These amendments did not significantly impacted annual financial statements of the Bank.
- Amendments to IAS 12 titled Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016) – These amendments which are applied to the annual reporting periods beginning 1 January of 2017 or after this date, clarify the accounting for deferred tax related to the unrealized loss where an asset is a debt instrument measured at fair value and that fair value is below the asset's tax base and aimed at eliminating diversity in practice. These amendments had no significant effect on the Bank's annual financial statements.
- Amendments to IFRS 12 (Annual Improvements to IFRS Standards 2014–2016 Cycle), issued in December 2016 clarify that the disclosure requirements of the Standard apply to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations except for summarised financial information for those interests (ie paragraphs B10–B16 of IFRS 12). These amendments had no effect on the Bank's annual financial statements.

New IFRS requirements in issue but not yet effective for the financial year beginning 1 January 2017.

The Bank's Management did not apply noted below new or amended standards issued by the Board but not yet effected for the financial year beginning 1 January 2017 (the list does not include new IFRS requirements information which affect interim financial statements or first-time adoption of IFRS as far as they are not related to these financial statements under IFRS).

The Bank anticipates that the new Standards, Amendments and Interpretations will be adopted in the Bank's financial statements when they become effective. The Bank has assessed, where practicable, the potential effect of all these new requirements that will be effective in future periods.

Amendments to existing Standards

- Amendments to IAS 28 (Annual Improvements to IFRS Standards 2014–2016 Cycle, issued in December 2016) – the amendments, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments are not expected to have an effect on the Bank's financial statements.
- Amendments to IAS 40 Investment Property (issued in December 2016) - the amendments, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred. The amendments will not have an effect on the Bank's financial statements.

- Amendments to IFRS 2 titled Classification and Measurement of Share-based Payment Transactions (issued in June 2016) - the amendments, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment (SBP) transactions, the accounting for SBP transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity-settled. The amendments are not expected to have an effect on the Bank's financial statements.
- Amendments to IFRS 4 titled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued in September 2016) - the amendments, applicable to annual periods beginning on or after 1 January 2018, give all insurers the option to recognise in other comprehensive income, rather than in profit or loss, the volatility that could arise when IFRS 9 is applied before implementing IFRS 17. Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach'). As the Bank does not issue insurance contracts, the amendments are not expected to have an effect on its financial statements.
- Amendments to IFRS 10 and IAS 28 (issued in September 2014) address a current conflict between the two Standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after 1 January 2016, was deferred indefinitely in December 2015 but earlier application is still permitted. This is not expected to have an effect on the Bank's financial statements.

New interpretations

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) - the Interpretation, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability. The Bank does not expect to have a material effect on the Bank's financial statements.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017) – the Interpretation, applicable to annual periods beginning on or after 1 January 2019 (earlier application permitted), provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances. The Bank does not expect a material effect of the interpretation on its financial statements

New standards

- IFRS 9 Financial Instruments (issued in July 2014) – The Standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018 (earlier application permitted). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, recognition and derecognition.

IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an “expected credit loss (ECL)” model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The recognition and derecognition provisions are carried over almost unchanged from IAS 39.

IFRS 9 will be applied to compile financial statements for 2018. The Bank has analyzed the transition to a new standard, updated its accounting policies and internal regulations.

As a result of the transition, the loan portfolio, as well as the deposit certificates of the NBU in full will be classified as those measured at amortised cost.

Implementation of IFRS 9 had no impact on the amount of credit risk provisions as of January 1, 2018 due to the short-term nature of loan assets in the Bank's loan portfolio as well as there was no changes in the estimation of the probability that borrowers would default on their obligations to the Bank.

- Revenue from Contracts with Customers (issued in May 2014). The new Standard, effective for annual periods beginning on or after 1 January 2018 (earlier application permitted), replaces IAS 11, IAS 18 and their Interpretations (IAS-31 and IFRIC 13, 15, and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (eg the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). The Bank's management anticipate that IFRS 15 will be adopted in the Bank's financial statements when it becomes mandatory, and that application of the standards may have an effect on the financial statements. However, it is not practicable to provide a reasonable financial estimate of the effect until the management complete the detailed review.
- IFRS 16 Leases (issued in January 2016) - The Standard, effective for annual periods beginning on or after 1 January 2019 (earlier application permitted only if IFRS 15 also applied), replaces IAS 17 and its Interpretations. The biggest change introduced is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The Bank's Management does not anticipate that IFRS 16 will have a material effect on its annual financial statements.

r) Comparative information

In 2017, the Bank’s Management decided to change the presentation of information in the financial statements in accordance with corporate standards. In the statement on profit or loss and other comprehensive income, two lines - “Foreign currency transactions results” and “Foreign currency revaluation surplus” are combined in the single line “Net trading income”, which is further disclosed in note 17.

Lines “Net (increase) decrease in assets impairment provision” and “Net (increase) decrease of provisions for credit-related commitments” were aggregated under the heading “Net (increase)/decrease of impairment loss” and disclosed in notes 6, 7, 9, 11.

These changes affected the statement of financial position for 2016 as follows:

<i>(in thousands of UAH)</i>	31 December 2016 (previous reporting)	<i>(in thousands of UAH)</i>	31 December 2016 (reclassified)
Interest income	267 704	Interest income	267 704
Interest expense	(91 717)	Interest expense	(91 717)
Net interest income	175 987	Net interest income	175 987
Net (increase) decrease in impairment loss	826	Net (increase)/decrease of assets impairment provision	(786)
		Net (increase)/decrease of provision for credit related commitments	1 612
Net interest income less impairment	176 813	Net interest income less impairment	176 813
Net fee and commission income	25 020	Net fee and commission income	25 020
Net trading income	12 888	Gains less losses from dealing with foreign currencies	13 332
		Foreign currency revaluation result	(444)
Other operating expenses	-	Other operating income	-
Total non-interest income	37 908	Total non-interest income	37 908
Salaries and employee benefits	(32 793)	Salaries and employee benefits	(32 793)
Administrative and other operating expenses	(42 210)	Administrative and other operating expenses	(42 210)
Total non-interest expense	(75 003)	Total non-interest expense	(75 003)
Profit before tax	139 718	Profit before tax	139 718
Income tax expense	(26 922)	Income tax expense	(26 922)
Profit for the year	112 796	Profit for the year	112 796

5 Cash and cash equivalents

Cash and cash equivalents are as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Cash	546	615
Balances with the NBU (including for mandatory reserves)	28 779	92 311
Deposit certificates of the NBU	1 108 627	1 264 982
Total cash and cash equivalents	1 137 952	1 357 908

According to the Resolution of the Board of the National Bank of Ukraine "On Approval of the Regulation on the Procedure for the Establishment and Storage of Mandatory Reserves by Banks of Ukraine and Branches of Foreign Banks in Ukraine" No. 806 dated December 11, 2014, the Bank forms and maintains mandatory reserves at the correspondent account in the National Bank of Ukraine in accordance with the established norms that are in force in the relevant periods. In order to bring the order of formation of mandatory reserves in compliance with the requirements of regulatory acts, the Board of the National Bank by the decision of 23.11.2017 № 752 abolished the requirement for daily compliance with the level of mandatory reserves and established a general procedure for determining the reserve base and norms of the mandatory reservation. The amount of mandatory reserve as at 31 December 2017 amounted to UAH 68 548 thousand (31 December 2016 - UAH 88 851 thousand). The amount of mandatory reserves that had to be kept on a correspondent account daily as of December 31, 2016 is UAH 35,540 thousand. As the Bank was entitled to fully use the amounts on the correspondents accounts with the National Bank of Ukraine, they were classified as cash and cash equivalents as at 31 December 2017 and 31 December 2016.

Cash and cash equivalents for statement of cash flows are as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Cash	545	615
Balances with the NBU	28 779	92 311
Correspondent accounts with other banks	311 735	856 222
Deposit certificates of NBU overnight	710 000	1 209 000
Total	1 051 059	2 158 148

Due to other banks in settlements and term deposit certificates of NBU are presented in the statement of cash flows as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Due to other banks in settlements	105 985	29 507
Term deposit certificates of NBU	396 000	55 000
Total	501 985	84 507

6 Due from other banks

Due from other banks are as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Correspondent accounts		
banks in OECD countries	417 363	883 711
banks in non OECD countries	325	1 994
Ukrainian banks	31	24
Total cash and cash equivalents due from other banks.	417 719	885 729
Provision for impairment	(158)	(532)
Total cash and cash equivalents due from other banks less provision for impairment	417 561	885 196

The following table represents an analysis of credit quality of due from other banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Correspondent accounts		
banks rated from BBB- to BBB+	417 363	883 711
unrated banks	356	2 017
Total due from other banks	417 719	885 729

The movement in provision for impairment as at 31 December 2017 and 31 December 2016 is as follows:

<i>(in thousands of UAH)</i>	Due from other banks	Total
Balance as at 01 January 2016	47	47
Increase/(decrease) of provision for impairment	485	485
Balance as at 31 December 2016	532	532
Increase/(decrease) of provision for impairment	(374)	(374)
Залишок станом на 31 грудня 2017 року	158	158

Corresponding account due from unrated Bank represented by balances due from the related party as at 31 December 2017 and as at 31 December 2016.

As at 31 December 2017, cash and cash equivalents due from one bank amount to UAH 384 655 thousand or 92,1% of the total cash and cash equivalents (31 December 2016: UAH 728 817 thousand or 83,5% accordingly).

7 Loans and advances to customers

Loans and advances to customers are as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Corporate loans	514 861	210 815
Provision for impairment	(59)	(26)
Total loans less provisions	514 802	210 789

Analysis of changes in provisions for loans for 2017 and 2016 is as:

<i>(in thousands of UAH)</i>	Loans to corporate clients
Balance as at 01 January 2016	152
Increase/(decrease) of provision for impairment	(126)
Balance as at 31 December 2016	26
Increase/(decrease) of provision for impairment	33
Balance as at 31 December 2017	59

Loan structure by sectors of economic activities is as follows:

<i>(in thousands of UAH)</i>	31 December 2017	%	31 December 2016	%
Trade	448 259	87.06%	192 794	91.45%
Production	66 602	12.94%	18 021	8.55%
Gross loans and advances to customers	514 861	100.00%	210 815	100.00%

Information on collateral as at 31 December 2017:

<i>(in thousands of UAH)</i>	Corporate loans
Unsecured loans	179 907
Loans collateralised by:	
investment banks guarantees	334 954
Gross loans and advances to customers	514 861

As collateral the Bank accepts guarantees issued by the parent bank.

Information on collateral as at 31 December 2016:

<i>(in thousands of UAH)</i>	Corporate loans
Unsecured loans	82 913
Loans collateralised by:	
investment banks guarantees	127 902
Gross loans and advances to customers	210 815

Analysis of credit quality of loans as at 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	Corporate loans
Not past due:	
Large borrowers	514 861
Provision for impairment	(59)
Net loans	514 802

Analysis of credit quality of loans as at 31 December 2016 is as follows:

<i>(in thousands of UAH)</i>	Corporate loans
Not past due:	
Large borrowers	210 815
Provision for impairment	(26)
Net loans	210 789

Effect of collateral value on credit quality as at 31 December 2017:

<i>(in thousands of UAH)</i>	Carrying amount	Expected cash flow from collateral	Effect of collateral
Corporate loans	514 861	334 954	179 907
Provision for impairment	(59)	-	(59)
Total loans less provisions	514 802	334 954	179 848

Effect of collateral value on credit quality as at 31 December 2016:

<i>(in thousands of UAH)</i>	Carrying amount	Expected cash flow from collateral	Effect of collateral
Corporate loans	210 815	127 902	82 913
Provision for impairment	(26)	-	(26)
Total loans less provisions	210 789	127 902	82 887

During the years ended 31 December 2017 and 31 December 2016, the Bank has not received any assets as a result of imposition on foreclosure.

8 Fixed and intangible assets

A summary of movements in fixed and intangible assets for the year ended 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	Machinery and equipment	Instruments, fixtures and furniture	Other non-current tangible assets	Intangible assets	Capital investme nts	Total
Historical cost						
01 January 2016	2 593	1 261	23	2 219	-	6 096
Additions	3 935	680	1 509	374	-	6 498
31 December 2016	6 528	1 941	1 532	2 593	-	12 594
Additions	4 738	76	1 538	345	1 046	7 743
31 December 2017	11 266	2 017	3 070	2 938	1 046	20 337
Depreciation						
01 January 2016	(721)	(107)	(23)	(1 984)	-	(2 835)
Depreciation charge	(755)	(282)	(74)	(125)	-	(1 236)
31 December 2016	(1 476)	(389)	(97)	(2 109)	-	(4 071)
Depreciation charge	(1 970)	(318)	(205)	(251)	-	(2 744)
31 December 2017	(3 446)	(707)	(302)	(2 360)	-	(6 815)
Net carrying value:						
01 January 2016	1 872	1 154	-	235	-	3 261
31 December 2016	5 052	1 552	1 435	484	-	8 523
31 December 2017	7 820	1 310	2 768	578	1 046	13 522

The Bank has no property and equipment restricted by law as to their ownership, use and disposal, pledged property, equipment and intangible assets; temporarily unused property and equipment, as well as property and equipment withdrawn from use. There are no intangible assets subject to restrictions of ownership rights, and there are no self-constructed intangible assets. During the reporting period there are no increases or decreases resulted from revaluations, as well as from impairment losses recognised or reversed directly in equity.

Property, equipment and intangible assets are accounted for at the original (historical) cost.

As at 31 December 2017 historical cost of fully depreciated property and equipment amounts to UAH 824 thousand.

As at 31 December 2016 historical cost of fully depreciated property and equipment amounts to UAH 458 thousand.

9 Other assets

Other assets are as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Prepayments for goods and services	1 441	733
Accounts receivable from taxes and mandatory payments other than income tax	361	276
Accrued fee and commission income	1 180	125
Total other assets	2 982	1 134
Provision for impairment	(87)	(366)
Total other assets less provision for impairment	2 895	768

Analysis of changes in provisions for other assets for 2017 and 2016 is as follows:

<i>(in thousands of UAH)</i>	Prepayments for services	Other assets	Total
<i>Balance as at 01 January 2016</i>	11	116	127
Increase/(decrease) of provision for impairment	290	137	427
Write-off of bad debts		(188)	(188)
Balance as at 31 December 2016	301	65	366
Increase/(decrease) of provision for impairment	(293)	32	(260)
Write-off of bad debts		(19)	(19)
Balance as at 31 December 2017	8	78	87

10 Due to customers

Due to customers are as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Entities		
Current accounts	1 019 436	1 618 592
Term deposits	687 129	478 054
Total due to customers	1 706 565	2 096 646

Current accounts include accounts payable on transactions with customers.

Due to customers are distributed by sectors of economic activities as at 31 December 2017:

<i>(in thousands of UAH)</i>	31 December 2017	%
Trade	652 216	38.22%
Processing industry	490 981	28.77%
Transport	15 042	0.88%
Production of alcohol and beverages products	237 366	13.91%
Information and telecommunications	10 619	0.62%
Professional, scientific and technical activities	264 132	15.48%
Administrative and support services	13 358	0.78%
Other	22 851	1.34%
Total due to customers	1 706 565	100.00%

Due to customers are distributed by sectors of economic activities as at 31 December 2017:

<i>(in thousands of UAH)</i>	31 December 2016	%
Trade	1 089 462	51.96%
Processing industry	806 694	38.48%
Transport	7 735	0.37%
Production of alcohol and beverages products	26 578	1.27%
Information and telecommunications	18 908	0.90%
Professional, scientific and technical activities	61 670	2.94%
Administrative and support services	81 440	3.88%
Other	4 159	0.20%
Total due to customers	2 096 646	100%

As at 31 December 2017 due to customers in the amount of UAH 108 162 thousand is pledged as security for import letters of credit.

As at 31 December 2017, account balances of ten largest customers amount to UAH 1 219 281 thousand, or 71,4% of the total amounts due to customers (31 December 2016: UAH 1 836 827 thousand or 87,6% accordingly).

As at 31 December 2017, account balances of one largest customer amount to UAH 188 071 thousand, or 11% of the total amounts due to customers (31 December 2016: UAH 810 245 thousand, or 38,6% accordingly).

11 Provision for credit-related commitments

Changes in provisions for credit-related commitments for 2017 are as follows:

<i>(in thousands of UAH)</i>	Credit related commitments
Balance as at 01 January 2017	646
Increase/(decrease) of provision for impairment	(558)
Balance as at 31 December 2017	88

Changes in provisions for credit-related commitments for 2016 are as follows:

<i>(in thousands of UAH)</i>	Credit related commitments
Balance as at 01 January 2016	2 258
Increase/(decrease) of provision for impairment	(1 612)
Balance as at 31 December 2016	646

Provisions for credit-related commitments consist of provisions for granted guarantees and letters of credit and were estimated on portfolio basis.

12 Other liabilities

Other liabilities are as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Accounts payable for administrative and IT services	4 061	7 032
Accounts payable at settlements with the Bank's employees	5 433	2 131
Accounts payable for taxes and mandatory payments other than income tax	432	923
Accrued expenses for others services	1 076	789
Deferred income	-	35
Other liabilities	8 225	35
Total other liabilities	19 227	10 945

*Other liability in the amount of UAH 8 225 thousand is the balance of account #3720 “Amounts to clarification”

13 Share capital

<i>(in thousands of UAH)</i>	Number of shares outstanding	Ordinary shares price
Balance as at 01 January 2016	228 666	228 666
Balance as at 31 December 2016	228 666	228 666
Increase in nominal value of shares	-	73 173
Balance as at 31 December 2017	228 666	301 839

As at 31 December 2016 and 31 December 2015, authorised issued capital consists of 228,666 thousand ordinary shares. The nominal value of ordinary shares is UAH 1 per share.

In 2017, the Bank's shareholders decided to increase the Bank's authorized capital by UAH 73 173 152.64 (seventy three million one hundred seventy three thousand one hundred fifty two hryvnias 64 copeks) to the amount of UAH 301 839 254.64 (three hundred one million eight hundred thirty nine thousand two hundred fifty four hryvnias 64 copeks) by increasing the nominal value of shares by 0.32 hryvnia to 1.32 hryvnia at the expense of part of the net profit for 2016 which was directed to the share capital.

In the second quarter of 2017 the Bank issued 228 666 102 registered ordinary shares of the new nominal value UAH 1.32 per each.

The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at annual and general meetings of the Bank.

In accordance with Ukrainian legislation, the distributable reserves are limited to the balance of accumulated reserves recorded in financial statements which is prepared in accordance with the NBU regulatory requirements.

14 Maturity analysis of assets and liabilities

Maturity analysis of assets and liabilities as at 31 December 2017 is as follows:

(in thousands of UAH)	Note	Less than 12 months	Over 12 months	Total
ASSETS				
Cash and cash equivalents	5	1 137 952	-	1 137 952
Due from other banks	6	417 561	-	417 561
Loans and advances to customers	7	514 802	-	514 802
Deferred tax asset	18	932	-	932
Fixed assets	8	15	12 929	12 944
Intangible assets	8	46	532	578
Other assets	9	2 895	-	2 895
Total assets		2 074 203	13 461	2 087 664
LIABILITIES				
Due to customers	10	1 706 565	-	1 706 565
Current income tax liability		2 381	-	2 381
Provision for credit related commitments	11	88	-	88
Other liabilities	12	19 227	-	19 227
Total liabilities		1 728 261	-	1 728 261

Maturity analysis of assets and liabilities as at 31 December 2016 is as follows:

(in thousands of UAH)	Note	Less than 12 months	Over 12 months	Total
АКТИВИ				
Cash and cash equivalents	5	1 357 908	-	1 357 908
Due from other banks	6	885 196	-	885 196
Loans and advances to customers	7	210 789	-	210 789
Receivables on current income tax		2 467	-	2 467
Deferred tax asset	18	489	-	489
Fixed assets	8	-	8 039	8 039
Intangible assets	8	23	462	484
Other assets	9	768	-	768
Total assets		2 457 640	8 500	2 466 140
LIABILITIES				
Due to customers	10	2 096 646	-	2 096 646
Provision for credit related commitments	11	646	-	646
Dividends payable	20	2 588	-	2 588
Other liabilities	12	10 945	-	10 945
Total liabilities		2 110 825	-	2 110 825

Due to the fact that substantially all financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the interest rate repricing dates.

The above amounts represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

15 Interest income and expenses

Interest income and expenses for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2017	2016
Interest income:		
Deposits in other banks	3 082	1 637
NBU deposit certificates	112 555	165 843
Loans and advances to customers	49 100	100 224
Total interest income	164 737	267 704
Interest expense:		
Term deposits of other banks	(36)	(60)
Corporate current accounts	(2 451)	(2 669)
Corporate term deposits	(57 624)	(88 988)
Total interest expenses	(60 111)	(91 717)
Net interest income	104 626	175 987

16 Fee and commission income and expenses

Fee and commission income and expenses for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2017	2016
Fee and commission income	23 702	29 926
Fee and commission expenses	(2 892)	(4 906)
Net fee and commission income	20 810	25 020

<i>(in thousands of UAH)</i>	2017	2016
Net fee and commission income:		
Cash and cash transactions	1 385	1 335
Foreign currency transactions for customers	19 049	26 783
Loans	142	144
Guarantees issued/received	(1 082)	(3 880)
Other	1 316	638
Net fee and commission income	20 810	25 020

17 Trading income

Trading income and expense for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2017	2016
Trading income:		
Результат від операцій з іноземною валютою	8 090	13 332
Результат від переоцінки іноземної валюти	(102)	(444)
Net trading income	7 988	12 888

18 Administrative and other operating expenses

Administrative and other operating expenses for years ended 31 December, are as follows:

<i>(in thousands of UAH)</i>	2017	2016
IT expenses	6 737	10 444
Operating lease and maintenance of property and equipment	12 736	11 849
Consultancy , legal and other professional services	13 978	11 665
Telecommunication expenses	2 631	1 872
Operating expenses	205	177
Other employee expenses except for salaries and benefits	566	390
Taxes and other mandatory payments, other than income tax	4 901	4 112
Representative expenses	2 020	1 365
Marketing	67	-
Other expenses	353	336
Total administrative and other operating expense	44 194	42 210

19 Taxation

The statutory income tax rate in 2017 and thereafter is 18 %.

The components of income tax expense for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2017	2016
Current tax expense	(9 936)	(26 594)
Deferred tax expense	443	(328)
Total income tax expense	(9 493)	(26 922)

a) Reconciliation of effective tax rate

Reconciliation of accounting profit and income tax for the year ended 31 December is as follows:

<i>(in thousands of UAH)</i>	31 December 2017	%	31 December 2016	%
Profit before tax	47 564	100%	139 718	100%
Income tax at the applicable tax rate	(8 562)	18%	(25 149)	18%
Non-deductible income and expenses	(931)	2.0%	(1 773)	1.3%
Total income tax expenses	(9 493)	20%	(26 922)	19.3%

b) Deferred income tax asset

The temporary difference between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2017 and as at 31 December 2016.

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	Balance as at the beginning of the year	Recognised in profits/ losses	Recognised in other comprehens ive income	Balance as at the end of the year
Provisions for impairment of assets	(30)	30	-	-
Accrued income (expenses)	337	563	-	900
Provision for credit -related commitments	116	(100)	-	16
Other assets	66	(50)	-	16
Net deferred tax asset (liability)	489	443	-	932

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2016 are as follows:

<i>(in thousands of UAH)</i>	Balance as at the beginning of the year	Recognised in profits/ losses	Recognised in other comprehens ive income	Balance as at the end of the year
Provisions for impairment of assets	(60)	30	-	(30)
Accrued income (expenses)	447	(110)	-	337
Provision for credit related commitments	406	(290)	-	116
Other assets	24	42	-	66
Net deferred tax asset (liability)	817	(328)	-	489

20 Earnings per share

Calculation of basic earnings per one share, as presented below, is based on profit for the year, owned by holders of ordinary shares and the average weighted number of outstanding shares totaling to 228,666 thousand for years ended as at 31 December 2017 and 2016. The Bank has no potential ordinary dilutive shares.

<i>(in thousands of UAH)</i>	2017	2016
Profit for the period owned by holders of the Bank's ordinary shares	38 071	112 796
Average number of outstanding shares for the period (thousand shares)	228 666	228 666
Basic and diluted earnings per ordinary share (UAH)	0.17	0.49

21 Dividends

In 2016 according to shareholders' decision the Bank directed the amount of UAH 136 567 thousand for distribution of dividends for 2014 and 2015 financial years.

In 2017 according to shareholders’ decision the Bank directed the amount of UAH 32 284 thousand for distribution of dividends for 2016 financial year.

The movement in dividends is as follows:

(in thousands of UAH)

	For ordinary shares
Dividends	
Balance as at 1 January 2016	-
Dividends on which the decision to pay during the year	136 567
Dividends paid	(127 151)
Tax paid on dividends	(6 828)
Balance as at 31 December 2016	2 588
Dividends on which the decision to pay during the year	33 983
Dividends paid	(34 872)
Tax paid on dividends	(1 699)
Balance as at 31 December 2017	-

22 Risk management

Risk management is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (including risk of changes in foreign exchange rates and interest rates), liquidity risk and operational risk.

The risk management policies aim to identify, analyze, and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

Risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

(a) Credit risk

Credit risk is the risk of a financial loss if a customer or counterparty fails to meet its contractual obligations. The Bank developed policies and procedures, which regulate credit transactions and credit risk management (both for on balance sheet and off balance sheet exposures), the main ones are the credit policy and the policy of credit risk management. The credit policies are reviewed and approved by the Board.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country risk, and industry risk).

The credit policy and the policy of credit risk management establishes:

- general credit limits, which are followed by the bank to reduce credit risk
- procedures for review and approval of loan applications
- methodology for assessment of borrowers’ solvency
- methodology for evaluation of collateral value
- requirements to loan documentation
- procedures for continuous monitoring of credit-related risks and other credit risks.

To manage credit risk, the Bank deals with counterparties with good credit standing and obtains collateral with adequate value.

The maximum exposure to balance sheet credit risk is generally represented by carrying amounts of financial assets in the statement of financial position.

During 2017 the Bank complied with the credit risk ratios. As at 31 December 2017 the ratios were as follows (according to the form 611): N7 = 18.90%; N8 = 48.47%; N9 = 0.50%

Analysis of changes in provisions for loans for the years ended 31 December 2017 and 2016 is as follows:

<i>(in thousands of UAH)</i>		Due from other banks	Credit related commitments	Prepayments for services	Other assets	Total
	Corporate loans					
Balance as at 1 January 2016	152	47	2 258	11	116	2 584
Increase/(decrease) of provision for impairment	(126)	485	(1 612)	290	137	(826)
Write off of bad debt	-	-	-		(188)	(188)
Balance as at 31 December 2016	26	532	646	301	65	1 570
Increase/(decrease) of provision for impairment	33	(374)	(558)	(293)	32	(1 160)
Write off of bad debt	-	-	-	-	(19)	(19)
Balance as at 31 December 2017	59	158	88	8	78	391

(b) Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, interest rates, credit spreads, and prices for securities will affect income or the value of financial instruments. Market risk arises from open interest rate, currency, and equity financial instruments positions influenced by general and specific market movements and changes in the level of volatility of market prices.

(c) Currency risk

The risk of financial losses and probability of lower cost of capital associated with changes in the exchange rates and prices for precious metals, which are unfavorable for existing open currency positions is an important type of risk, which arises in the course of banking activity.

Basic methods and models for currency risk management are defined in policy on currency risk management in PJSC "Deutsche Bank DBU."

The amount of potential financial losses depends on the size of open currency positions and the size of changes of corresponding foreign exchange rates. The analysis of the impact of projected changes in exchange rates on the financial result of the bank is made using VaR model (Value at Risk). The process of currency risk management at the Bank involves daily monitoring of compliance with the maximum possible amount of open currency positions based on a tolerable dimension of capital at risk to established limits of open currency positions, analysis of volatility of exchange rates and the value of the currency risk under normal and stressed conditions.

The following table shows currency risk analysis:

<i>(in thousands of UAH)</i>		31 December 2017			31 December 2016		
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
USD		49 388	49 296	92	757 875	756 029	1 846
EURO		369 753	373 230	(3 477)	124 361	122 469	1 892
Total		419 141	422 526	(3 385)	882 236	878 498	3 738

As of December 31, 2017, the 50% hryvnia depreciation against these currencies would result in an increase in post-tax and equity losses for the amount indicated below. This analysis is based on the end-of-year position and the assumption that all other variables, such as interest rates, are unchanged.

<i>(in thousands of UAH)</i>	2017		2016	
	Profit or loss	Equity	Profit or loss	Equity
50% appreciation of USD against UAH	38	38	757	757
50% appreciation of EUR against UAH	(1 425)	(1 425)	776	776

Conversely, a 50% strengthening of the hryvnia against the currencies would have led to the same amount of profit, but the probability of this assumption is very low.

(d) Interest rate risk

Interest rate risk - the actual or potential risk to earnings or capital arising from adverse changes in interest rates. This risk affects both the Bank's profitability and economic value of its assets, liabilities and off-balance sheet instruments.

The main forms of interest rate risk are:

- risk of changing of interest rate in condition of maturity mismatch of assets and liabilities;
- yield curve risk – arise from unfavorable changes in inclination and shape of the yield curve.

Basic principles of interest rate risk management are defined in policy for interest rate risk management in PJSC "Deutsche Bank DBU."

Interest rate risk management includes management of both assets and liabilities of the Bank. A feature of this process is the limited administrative capacity. Asset management is limited by:

- the liquidity requirements and credit risk of portfolio of bank's assets;
- price competition from other banks, which limits freedom in choosing bank loan pricing.

On the other hand, the liabilities management is complicated by:

- limited choice and the amount of debt instruments that the Bank can successfully place among its depositors and other creditors at a certain time;
- price competition for existing funds from other banks and non-bank credit institutions.

Therefore, the main objective of interest rate risk management is to minimize this risk within the planned profitability considering its liquidity position.

The amount of potential financial losses depends on the amount of open interest positions - the gaps between assets and liabilities by terms.

Analysis of the impact of changes in interest rates with different maturities on the financial result of the Bank is made using a VaR model (Value at Risk) and sensitivity to interest rate risk.

The process of interest rate risk management involves daily monitoring of open gaps and Sensitivity limit and Stress VaR.

The Bank has no floating interest rate instruments. The Bank does not account for fixed rate financial instruments at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December:

	2017 pik Average effective interest rate, %			2016 pik Average effective interest rate, %		
	UAH	USD	EURO	UAH	USD	EURO
Interest bearing assets						
Cash and cash equivalents	-	0.84%	-	-	0.20%	-
NBU deposit certificates	12.11%	-	-	16.60%	-	-
Loans and advances to customers	12.56%	-	-	17.80%	-	-
Interest bearing liabilities						
Due to customers:						
Current accounts	4.72%	-	-	5.75%	-	-
Term deposits	9.71%	-	-	12.57%	-	-

The Bank does not have any floating rate instruments. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(e) Other price risk

The Bank has no other price risks for disclosure in the financial statements.

(f) Geographical risk

Geographical concentration of financial assets and liabilities as at 31 December 2017 is as follows:

(in thousands of UAH)

	Ukraine	OECD countries	Other countries	Total
ASSETS				
Cash and cash equivalents	1 137 952	-	-	1 137 952
Due from other banks	31	417 205	325	417 561
Loans and advances to customers	514 802	-	-	514 802
Other assets	158	967	55	1 180
Total financial assets	1 652 943	418 172	380	2 071 495
LIABILITIES				
Due to customers	1 706 565	-	-	1 706 565
Provision for credit related commitments	88	-	-	88
Other liabilities	8 225	-	-	8 225
Total financial liabilities	1 714 878	-	-	1 714 878
Net balance sheet position on financial instruments	(61 935)	418 172	380	356 617

Geographical concentration of financial assets and liabilities as at 31 December 2016 is as follows:

(in thousands of UAH)

	Ukraine	OECD countries	Other countries	Total
ASSETS				
Cash and cash equivalents	1 357 908	-	-	1 357 908
Due from other banks	24	883 180	1 992	885 196
Loans and advances to customers	210 789	-	-	210 789
Other assets	11	-	49	60
Total financial assets	1 568 732	883 180	2 041	2 453 953

LIABILITIES

Due to customers	2 096 646	-	-	2 096 646
Provision for credit related commitments	638	-	8	646
Other liabilities	-	2 588	-	2 588
Total financial liabilities	2 097 284	2 588	8	2 099 880
Net balance sheet position on financial instruments	(528 552)	880 592	2 033	354 072

Other risk concentrations.

Concentration risk – is not an isolated form of banking risk, but the generalized, which includes elements of banking risks such as: credit risk, market risk, liquidity risk, operational and technological risk, geographical risk, as a result of focusing on separate types of transactions or certain sources of funding.

The common characteristic that identifies each concentration risk is the possibility of incurring potential losses that could significantly impair the Bank's financial position and result in the inability of current operations as a result of the concentration of business with certain persons in certain types of instruments, assets, liabilities, regions and countries.

(g) Liquidity risk

Liquidity risk – existing or potential risk, which arises from the failure of the Bank to meet its obligations in due time, without incurring financial losses.

Basic principles of liquidity risk management are defined in policy on liquidity risk management of PJSC "Deutsche Bank DBU."

The Bank uses the following basic methods of liquidity management:

- asset management – the Bank defines ways of placing their own and borrowed funds so that at minimum risk to get the maximum possible income while remaining liquid;
- liability management – the Bank determines the policy of equity and borrowed funds management, determines their optimal structure for further effective use in active operations.
- balanced asset and liability management – this method is the use of portfolio approach to managing liquidity risk through the coordinated management of assets and liabilities.

Assets and liabilities and liquidity are managed by Asset and Liability Committee (ALCO), which analyses assets and liabilities by maturity and provide recommendations on how to avoid liquidity gaps. In addition, ALCO analyses liability cost and return on assets, controls compliance with NBU's regulations and provisioning requirements, and prepares recommendations on proper asset and liability management. ALCO is responsible for cash flow optimisation and payment discipline, coordinates corporate forecast system, etc.

Liquidity risk is a major financial risk, and Bank's stable financial position depends on the efficiency of liquidity risk management. To manage liquidity risk, the Bank analyses asset and liability structure, liquidity status, both for all currencies collectively and for individual currencies of Bank's transactions. In addition, the Bank controls its compliance with the NBU's requirements to provisioning of amounts due from banks (N4 - immediate liquidity ratio, N5 - current liquidity ratio, N6 - short-term liquidity ratio), and internally developed requirements. Efficient liquidity management is performed using special techniques, such as analysis of assets and liabilities by maturities and cash flow projections.

Monitoring of adherence to limit is performed daily based on limit adherence reports.

During 2017 the Bank complied with requirements on liquidity ratios. As at 31 December 2017 the ratios were as follows (according to form 611): N4 = 158.47; N5 = 130.19; N6 = 129.37

The undiscounted cash flows from financial liabilities, including future interest payments, by maturity as at 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	On demand and less than 1 month	From 1 month to 1 year	From 1 year to 5 years	Total	Carrying amount
Due to customers:					
Legal entities	1 694 300	10 088	2 177	1 706 565	1 706 565
Provision for credit related commitments	-	88	-	88	88
Total potential future payments under financial liabilities	1 694 300	10 176	2 177	1 706 653	1 706 653

The undiscounted cash flows from financial liabilities, including future interest payments, by maturity as at 31 December 2016 are as follows:

<i>(in thousands of UAH)</i>	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total	Carrying amount
Due to customers:						
Legal entities	2 092 544	3 003	1 099	-	2 096 646	2 096 646
Provision for credit related commitments	646	-	-	-	646	646
Total potential future payments under financial liabilities	2 093 190	3 003	1 099	-	2 097 292	2 097 292

(h) Operational risk

Operational risk is defined as the probability of losses that result from inappropriate or false progress of internal processes, employee actions and systems and / or external factors.

The main principles of liquidity risk management are determined by the Policy on operational risk management at PJSC Deutsche Bank DBU.

The operational risk management system is defined as a set and sequence of stages of identification, assessment, minimization, subsequent monitoring, reporting and calculation of operational risk indicators, and implemented through the following tasks:

- Organization and methodological support for the Bank's operational risk mapping system;
- Organization of internal control system, including updating of the Bank's control plan and methodological support;
- Organization and methodological support for operational data collection system;
- Organization, methodological support and support of the base of action plans;
- Initiation and methodological support for trainings aimed at dissemination among

23 Capital management

The Bank’s principal objective in capital management is to maintain a strong capital base so as to perform efficient operations and ensure strategic development of the banking business while complying with NBU’s requirements to capital management. Capital management is an integral part of Bank’s assets and liabilities management. The Bank ensures that its capital adequacy is maintained on a required level through planning and control mechanisms. The Bank monitors capital adequacy ratio on a daily basis.

Regulatory capital adequacy ratio calculated in accordance with the NBU requirements is 132.83% (31 December 2016: 117%) while the minimum requirement for capital adequacy ratio is 10%. As at 31 December 2017 and as at 31 December 2016, regulatory capital of the Bank was higher than established minimum level of the required capital in the amount of UAH 200 000 thousand, and also it was higher than the share capital of the Bank.

Regulatory capital of the Bank is as follows (according to form 611, excluding corrective postings per year):

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Primary capital		
Share capital actually paid	301 839	228 666
Disclosed reserves, formed or increased by retained earnings:	19 493	13 853
General reserves and reserve funds formed under the laws of Ukraine	19 493	13 853
Reduction of capital	(578)	(484)
Intangible assets less depreciation	(578)	(484)
Primary capital (1-tier capital)	320 754	242 035
Provision for standard exposure (other banks, loans, off balance accounts)	-	399
Calculated profit for current year	43 695	113 606
Profit of previous years	-	-
Uncovered credit risk	(12 143)	(4 642)
Additional capital (2-tier capital)	31 552	109 363
Total regulatory capital	352 6	351 8

24 Contingencies

a) Litigations

In 2017, the Bank initiated a lawsuit against the Large Taxpayers’ Office of the Ukrainian State Fiscal Service regarding the abolition of the decision to impose fines. The suit was settled by Kyiv District Administrative Court. As of the date of signing the financial statements, the decision was confirmed by the Kyiv Administrative Court of Appeal and entered into force.

The Bank recognised no provisions for potential losses in respect of litigation.

b) Taxation contingencies

The Ukrainian tax system is relatively new and can be characterised by numerous taxes and frequently changing legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Tax regulations are often

unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the NBU and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes that it has complied with all existing tax legislation and has provided adequately for tax liabilities based on its interpretations of applicable Ukrainian tax legislation, official pronouncements and court decisions. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are presented as follows (including a rent during the whole period of operating lease agreements validity):

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Less than 1 year	10 650	9 832
From 1 to 5 years	1 656	16 906
Total	12 306	26 738

d) Lending commitments

As at the reporting date, the Bank did not have any pledged assets and assets subject to restrictions associated with the possession, use and disposal of assets.

The structure of loan commitments is as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
Revocable:		
Undrawn credit lines	3 229 805	2 633 534
Total revocable liabilities	3 229 805	2 633 534
Irrevocable:		
Guarantees issued	14 392	11 757
Letters of Credit	-	23 795
Total irrevocable liabilities	14 392	35 552
Total	3 244 197	2 669 086

Credit related commitments by currency are as follows:

<i>(in thousands of UAH)</i>	31 December 2017	31 December 2016
UAH	305 107	155 000
USD	928 097	867 135
EURO	2 010 993	1 646 951
Total	3 244 197	2 669 086

25 Fair value of financial instruments

a) Classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

	Loans and receivables	Other assets/liabilities at amortised cost	Carrying amount	Fair value
<i>(in thousands of UAH)</i>				
Cash and cash equivalents	1 137 952		1 137 952	1 137 952
Due from other banks	417 561		417 561	417 561
Loans and advances to customers	514 802		514 802	514 802
Other assets	1 180		1 180	1 180
Total assets	2 071 495	-	2 071 495	2 071 495
Due to customers		1 706 565	1 706 565	1 706 565
Provision for credit related commitments		88	88	88
Other liabilities		8 225	8 225	8 225
Total liabilities	-	1 714 878	1 714 878	1 714 878

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

	Loans and receivables	Other assets/liabilities at amortised cost	Carrying amount	Fair value
<i>(in thousands of UAH)</i>				
Cash and cash equivalents	1 357 908		1 357 908	1 357 908
Due from other banks	885 196		885 196	885 196
Loans and advances to customers	210 789		210 789	210 789
Other assets	60		60	60
Total assets	2 453 953	-	2 453 953	2 453 953
Due to customers		2 096 646	2 096 646	2 096 646
Provision for credit- related commitments		646	646	646
Dividends payable		2 588	2 588	2 588
Total liabilities	-	2 099 880	2 099 880	2 099 880

As at 31 December 2017 and 2016, the fair values of all financial assets and liabilities are estimated to approximate their carrying values due to their short-term nature and/or market interest rates at period end.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following three-level fair value hierarchy:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments and traded derivatives, such as futures.

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

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

This hierarchy requires the use of observable market data when available.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017:

<i>(in thousands of UAH)</i>	Level 1	Level 2	Level 3	Fair value	Carrying value
Cash and cash equivalents		1 137 952		1 137 952	1 137 952
Due from other banks		417 561		417 561	417 561
Loans and advances to customers			514 802	514 802	514 802
Other assets			1 180	1 180	1 180
Total assets	-	1 555 513	515 982	2 071 495	2 071 495
Due to customers		1 706 565		1 706 565	1 706 565
Provision for credit related commitments			88	88	88
Other liabilities			8 225	8 225	8 225
Total liabilities	-	1 706 565	8 313	1 714 878	1 714 878

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2016:

<i>(in thousands of UAH)</i>	Level 1	Level 2	Level 3	Fair value	Carrying value
Cash and cash equivalents		1 357 673		1 357 673	1 357 908
Due from other banks		885 196		885 196	885 196
Loans and advances to customers			210 789	210 789	210 789
Other assets			60	60	60
Total assets	-	2 242 869	210 849	2 453 718	2 453 953
Due to customers		2 096 646		2 096 646	2 096 646
Provision for credit related commitments			646	646	646
Dividends payable			2 588	2 588	2 588

Total liabilities	-	2 096 646	3 234	2 099 880	2 099 880
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Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2017:

Type of instrument	Fair value	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans and advances to customers	514 802	Discounted cash flow	Risk adjusted discount rate	Interest rates 12,00%-18,00%	The reduction in interest rates leads to an increase in fair value

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2016:

Type of instrument	Fair value	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans and advances to customers	210 789	Discounted cash flow	Risk adjusted discount rate	Interest rates 16,00%-28,00%	The reduction in interest rates leads to an increase in fair value

During the years ended 31 December 2017 and 2016, no fair value gains or fair value losses were recognised in profit or loss or other comprehensive income on loans to customers.

During the years ended 31 December 2017 and 2016, there were no transfers into and out of Level 3 of the fair value hierarchy.

26 Transactions with related parties

The Bank grants loans and advances, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions.

The Bank assesses credit risks associated with loans to related parties and manages these credit risks in accordance with the normative requirements of the NBU.

Terms of transactions with related parties are established at the time of the transaction. In accordance with IAS 24 Related Party Disclosures, related parties comprise:

- the parent company - the ultimate controlling party of the Bank is Deutsche Bank AG (Germany) which holds 100% shares;
- entities under common control of Deutsche Bank AG;
- key management personnel and their immediate family members, members of the Supervisory Board, the Board, and their immediate family members.

As at 31 December 2017 and 31 December 2016, the Bank has no subsidiaries, associates, or joint ventures where the Bank has control relationship.

Balances with related parties as at 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Due from other banks	384 655	33 033
Other assets	934	506
Other liabilities (on demand, denominated in EUR)	326	4 054

As at 31 December 2017 balances due from banks related to transactions with related parties represent call deposits with interest rate 0.55%.

As at 31 December 2017, balances due from banks related to transactions with related parties by currency are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
USD	16 647	32 708
EURO	367 997	-
RUB	-	325
other	11	-
Total	384 655	33 033

Other rights and commitments on transactions with related parties as at 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Guarantees issued	-	842

Income and expenses on transactions with related parties for the year ended 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Key management personnel	Entities under common control
Interest income	845	-	1 113
Gains less losses from dealing in foreign currencies	-	-	1 335
Commission income	-	-	161
Commission expense	(126)	-	(2 723)
Administrative and other operating expenses	(1 051)	(20 376)	(4 169)

Income and expenses on transactions with related parties for the year ended 31 December 2016 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Due from other banks	154 894	730 811
Other liabilities (on demand, denominated in EUR)	3 912	5 742

As at 31 December 2016 balances due from banks related to transactions with related parties represent call deposits with interest rate 0.1%.

As at 31 December 2016, balances due from banks related to transactions with related parties by currency are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
USD	29 507	728 817
EURO	124 061	-
RUB	-	1 994
Other	1 327	-
Total	154 895	730 811

Income and expenses on transactions with related parties for the year ended 31 December 2016 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Key management personnel	Entities under common control
Interest income	-	-	788
Gains less losses from dealing in foreign currencies	-	-	415
Commission income	9	-	5
Commission expense	(204)	-	(4 660)
Administrative and other operating expenses and other operating income	(2 243)	(10 053)	(7 582)

Other rights and commitments on transactions with related parties as at 31 December 2016 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Guarantees issued	-	381
Guarantees received	-	127 902

Payments to key management personnel for the years ended 31 December are as follows:

	As at and for the year ended 31 December 2017	As at and for the year ended 31 December 2016
<i>(in thousands of UAH)</i>	expenses	expenses
Payments to key management personnel	20 376	10 053
	Accrued liability	Accrued liability
	2 582	149

27 Events after the balance sheet date

After the balance sheet date, the National Bank of Ukraine twice raised the discount rate: from January 26, 2018 - by 1.5 pp. to 16% per annum, from 06.03.2018 - by 1.0 pp to 17% per annum. The discount rate is the lowest among NBU interest rates, and is the basic indicator for measuring the value of money.

In accordance with the NBU Board Resolution No. 31 of March 29, 2018, "On Amendments to Certain Regulatory Acts of the National Bank of Ukraine" and the Decision of the Board No. 184-rs of March 29, 2018 "On Establishing Limits of the Bank's Open Currency Position", the National Bank of Ukraine has expanded the ability of Ukrainian banking institutions to carry out operations with their own foreign currency, in particular:

- the restrictions on the size of the authorized balance of purchase and sale by banks of foreign currencies and bank metals were canceled within one business day (within 2017 until August 4, 2017 - 0.5%, and from August 4, 2017 - 1.0% of the size of the regulatory capital. the bank, this long-awaited financial market solution will enable banks to more actively trade the currency on the interbank market during the day and thus more effectively manage their currency liquidity. As a consequence, according to the expectations of the National Bank u should increase the volume of trading and liquidity in the interbank market;
- from May 1, 2018, the limit of the general long open currency position of the bank (L13-1) increases from 1% to 3%; from the 10% to 8%, the limit of the general short open currency position of the bank (L13-2) is reduced. This will allow banks to more effectively distribute currency risks;
- reduced restrictions on early repayment by Ukrainian companies of foreign loans and foreign currency loans - resident borrowers will be able to repay such loans and loans ahead of time if they are fully or partially borrowed by a foreign entity through its lending, insurance, guarantee or surety, one of whose shareholders is a foreign state or a foreign bank with a shareholder from a foreign state;
- the list of operations of the business, the receipt of which is not subject to mandatory sale (in the future, the resident company will be able not to carry out mandatory sale of funds received on a loan or a loan if in its implementation (through lending, insurance, guarantee) is wholly or partly taken by a foreign national whose shareholder is a foreign state, with this exception being limited to cases where the said foreign state has an official rating not lower than category A, sub quoted in a bulletin of one of the world's leading rating companies (Fitch Ratings, Standard & Poor's, Moody's);
- simplified for business transfer of foreign currency abroad to make payments related to litigation processes.

There were no other events after December 31, 2017, and before the date of approval of these financial statements that could affect the economic decisions of users.